London Hydro Inc.
111 Horton Street
P.O. Box 2700
London, ON
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July 2, 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 EB-2014-0196**

Dear Ms. Walli:

London Hydro Inc. ("London Hydro) hereby files responses to interrogatories by Board staff and LPMA. London Hydro has requested that Staff 7a and LPMA 5a be filed as confidential and therefore will be filed by courier in paper copy only.

This document is being filed pursuant to the Board's e-Filing Services.

Yours Truly,

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

# Response to Interrogatories

# EB-2014-0196

## Date Filed: July 2, 2014


**London Hydro Inc.**

**111 Horton Street**

**P.O. Box 2700**

**London, ON**

**N6A 4H6**

London Hydro

| | |
|---|---|
| File Number: | EB-2014-0196 |
| Date Filed: | July 2, 2014 |

# Tab 1 of 2

# OEB Board Staff IR's

# Staff - 1

Staff – 1
Ref: Manager's Summary, Page 1

LH indicated that it has a grandfathered life insurance benefit program that existed until 1998, when it was negotiated out of the collective agreement.

a) Please provide the HR policy that discusses the discontinuation of the program.

LH Response:

The discontinuation of this program was part of the negotiation process with CUPE Local #4. All discussions were within this context and did not result in a HR Policy.

b) Please clarify how 121 existing retirees and 2 qualified future retirees are still eligible for the grandfathered program as it has been negotiated out of the collective agreement.

LH Response:

At the time this program was negotiated out of the collective agreement there were a total of 208 individuals (either active or retired) in this group plan. The 121 existing retirees and the 2 qualified future retirees were grandfathered as part of the negotiations with CUPE.

# Staff - 2

Staff – 2
Ref: Manager's Summary, Pages 2 and 3

For the four options LH is considering (i.e. voluntary buy-out, purchase paid-up life, self-insure, combination of the options):

a) Please explain what LH would record in each of the three proposed deferral and variance accounts ("DVAs") under each of the options.

LH Response:

As indicated on page three of the Manager's summary, the three DVA accounts would be used as follows:

The first account would be used to record all of the actual settlements paid. The type of settlement would vary depending on the course of action incurred. If the buy-out option occurred, then the costs incurred with the buy-out would be recorded within the account. If a partial or complete self-insurance option was utilized, than the amounts paid out as benefits would be recorded in this account as incurred.

The second account represents any amounts that would be paid as life insurance premiums in excess of the amounts provided in the cost of service approval and increased based on the IRM total percent. For example, the amount requested in the cost of service application was $210,000. In 2014, the IRM amount was 0.5%, so the amount for 2014 would be increased to $211,050. This would be a reduction of the actual 2014 premiums paid for the retirees.

The final account represents the change in the Employee Future Benefit account associated with the retirees. Any amounts changing the liability will be offset within the deferral account up to the initial liability as recorded during the first cost of service application. The balance at this point in time represents the unfunded liability that has never been compensated so any changes after this amount should be returned to the customer. Based on the last full valuation prior to the London Hydro's first cost of service, the Accrued benefit obligation for the life insurance benefits was $3,734,000 (Valuation date September 1, 1999).

b) As a part of LH's response to part (a) above regarding the proposed variance account for changes in the Accrued Benefit Obligation, please also indicate if LH is proposing to record variances related to the total Accrued Benefit Obligation capitalized in fixed assets and included in OM&A, or only the portion relating to OM&A.

LH Response:

London Hydro is unsure specifically what the question is asking, but will attempt to address it anyway.

It is true that there is a small portion of overhead that is capitalized associated with employee future benefit costs, but since the program ended in 1998, no additional costs have been capitalized relating to this group since that time. (Any actual costs would have been completely immaterial as it would relate only to the change in the EFB obligation expenditure). As any portions would be insignificant relating to capital assets, London Hydro is proposing simply to record the amounts in the deferral account relating to the OM&A expenses and the amounts relating to the change in the EFB obligation (up to the initial 2000 EFB liability as described above).

c) Please provide the dollar allocation of the costs between capital and OM&A.

LH Response:

See above – not applicable.

d) Please indicate if LH has made any progress in determining which option to select. If yes, please explain.

LH Response:

Although an official decision has not yet been approved by the Board of Directors, London Hydro management is recommending approaching retirees with the voluntary buyout option as the first choice as this is the most cost effective option for both the organization and customers.

We are not in favour of the paid up life insurance as the retirees would be required to pay a significant tax expense.

For those individuals who do not accept the buy-out option, London Hydro would determine if we self-funded the insurance entirely or self-funded a portion of the obligation (such as a the first $10,000 and had insurance for any obligations in excess of that amount). Alternatively London Hydro could continue with the current insurance arrangement.

Benefits provided by a third party insurer are non-taxable to the beneficiary regardless of the amount. Insurance provided by London Hydro on the other hand is taxable to the beneficiary after the $10,000 limit. Therefore, if London Hydro became the sole provider of the benefits, the retiree would be required to pay taxes on the benefit above the $10,000 payout. While there may be legal implications with this, it is definitely contrary to the intention of the agreement. For this reason, London Hydro does not plan on pursuing the self-insurance option for more than $10,000 per individual.

e) If LH chooses to pursue only one of the options, would LH still require all three DVAs? If so, please explain why.

LH Response:

London Hydro is requesting all three of the variance accounts because regardless of which option is selected by London Hydro, multiple variance accounts would still be required.

For the voluntary buy-out option, 100% of the retirees would be required to take the buy-out if no future premiums were to be paid, therefore it is likely that all three accounts would still be required.

Although the option exists, London Hydro is not interested in pursuing the paid up life insurance option as there are significant cash flow implications to the retiree as addressed above.

100% Self-insure would be the only category which the premium DVA account would no longer be utilized, but since the purpose of that DVA account was to track the difference between the premium paid and the costs recovered in rates, the account would still be required to record the $210,000 per year which would reduce to total costs of the combined accounts.

The option does exist for the Board to approve a single DVA account in which all of the requested costs are tracked in a single account, rather than three separate accounts, but London Hydro feels the three separate accounts would be easier to explain the costs incurred to the board when the time comes for disposition.

# Staff - 3

Ref: Manager's Summary, Page 3

LH is requesting a variance account to record the annual changes in the Accrued Benefit Obligation. Please confirm that this does not include any impacts arising from the adoption of IFRS.

LH Response:

London Hydro confirms that the variance account requested will not include the change associated with the adoption of IFRS.

# Staff - 4

Ref: Manager's Summary, Page 1 and 3

In accordance with the Filing Requirements for Electricity Distribution Rate Applications, dated July 17, 2013, Chapter 3, paragraph 3.2.2.1 in the event an applicant seeks an accounting order to establish a new deferral/variance account, the eligibility criteria of causation, materiality and prudence must be met.

a) Please explain how each of the three proposed DVAs meets the eligibility criteria.

LH Response:

Please reference response to LPMA #2.

b) With regards to prudence, the Filing Requirements for Electricity Distribution Rate Applications states that "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."

LH Response:

London Hydro believes that due to the increasing premium costs, the proposed solutions are the most effective total cost to ratepayers over the course of the remaining obligation. Based on the information provided by Mercer, it is expected that the premiums paid by London Hydro over the next eleven years (2014 until 2024) would exceed $5.1 Million dollars. Based on the actuarial projections there would still be 51 retirees remaining in the plan. As the cost of the premiums within ten years exceeds the total cash payout (excluding any NPV or interest analysis), this is not an approach considered worthwhile or acceptable for ratepayers even though it is the "simplest approach" from a management perspective. For this reason, London Hydro has requested a different course of action compared to one that has been utilized historically.

Both the voluntary buy-out model and the self-funded model provide lower total cost options although without a deferral account, both of these options have a significant amount of volatility based on the number of people who leave the plan either voluntarily or otherwise in any given year.

The purpose of the variance account is to capture all of the costs related to these expenditures and allow a steady recovery back to London Hydro over a period of time while also lowering the total costs to the customer.

LH had control over the management of the retiree life insurance program as evidenced by LH management's ability to negotiate the program out of its collective agreement.

i. Given this, please also explain how LH considers the costs to be reasonably incurred. For example, why did LH not pursue the options currently proposed at an earlier date, when the proposed options may have been less costly as interest rates were higher?

LH Response:

Until the 2013 premiums became due, the premiums paid by London Hydro were considered to be a reasonable level and had not increased at the levels which are currently expected.

The total premiums paid between 2009 and 2012 totaled $820,534 (an average of $205,133) and actual paid out claims totaled $1,281,183 during that period of time.

As the costs were reasonable, London Hydro determined that at that point in time, the most cost effective approach was to continue with insurance.

ii. Also, has LH considered waiting until interest rates rise before buying the policies? Please explain what options have been discussed with management and Mercer.

LH Response:

Although management at London Hydro monitors interest rates and is interested in economist predictions, management is not in the business of predicting interest rates. Yes, it is expected that interest rates will increase, although when the interest rates increase are still considered debatable by many economists. If this was a younger group of active employees, then London Hydro agrees that the change in interest rates may have a significant impact on the total values calculated, but due to the age of the retirees, the interest rate is not expected to have a significant impact of the total costs associated with the life insurance amounts.

Management is under the opinion that the increase of the premiums will have a larger impact to the total cost compared to waiting until there is a significant change in interest rates.

# Staff - 5

**Ref: Manager's Summary, Page 4**

LH is proposing a variance account for changes to the Accrued Benefit Obligation pertaining to retiree life insurance benefits. This is one component of non-pension post-retirement benefits in which LH receives recovery for as per its last cost of service rate application (EB-2012-0146).

a) If LH over-recovers on the remaining portion of the Accrued Benefit Obligation not pertaining to the retiree life insurance benefits, does LH plan to refund this amount?

LH Response:

The intention of the request for a deferral account was not to be recording all variances associated with the employee future benefit amounts, but would be willing to record all amounts associated with employee future benefits in a deferral account based on the Board's direction. In that case, yes, London Hydro would refund any over-recoveries but would also collect in the case of under-recoveries.

b) Please provide a table comparing the total non-pension post-retirement benefits before capitalization in fixed assets currently included in rates (with a breakdown of the portion relating to retiree life insurance benefits, if possible) to the cash contributions paid for 2010 to 2013 and a forecast for 2014.

## LH Response:

**Summary of Retiree Benefits**

| | 2014 Forecast | 2013 Actual | 2012 Actual | 2011 Actual | 2010 Actual |
|---|---|---|---|---|---|
| **Cash contributions** | | | | | |
| Life insurance | 232,600 | 235,377 | 220,137 | 220,163 | 228,140 |
| Health benefits | 220,100 | 191,447 | 235,848 | 185,836 | 180,890 |
| Paid up life | 80,000 | 92,008 | 68,439 | 15,417 | 20,856 |
| | 532,700 | 518,832 | 524,424 | 421,416 | 429,886 |
| **Non cash** | | | | | |
| Year-end actuarial adjustment | 425,000 | 431,758 | 661,142 | 776,100 | 450,000 |
| | 957,700 | 950,590 | 1,185,566 | 1,197,516 | 879,886 |

*Please note there are two differences between the Life insurance amounts per this schedule and the amounts provided by Mercer. The differences are a result of the following:
1 – This table represents the calendar year amounts, while the Mercer table represents the "premium year" – October to September.
2 – The insurance premiums still include PST (non-recoverable) so this is the total cost, while the Mercer table is excluding taxes.

# Staff - 6

**Staff 6**

Please file the Mercer report from EB-2012-0146, Mercer - Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending 31 December 2011 Under CICA Section 3461 and Disclosure in Relation to the Transition to IAS 19 at 01 January 2011

LH Response:

Please reference attachment 6a to this interrogatory.

Please file all of the actuarial valuations prepared for LH since the valuation filed in EB-2012-0146.

LH Response:

Please reference attachments 6b and 6c to this interrogatory.

# Attachment 1 of 3

# Attachment 6a - 2011 Actuarial Valuation

# Attachment 2 of 3

# Attachment 6b - 2012 Actuarial Valuation

# Attachment 3 of 3

# Attachment 6c - 2013 Actuarial Valuation

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# SECTION 3461 UNDER PART V OF THE CPA CANADA HANDBOOK ACTUARIAL VALUATION REPORT AS AT 31 DECEMBER 2013

## NON-PENSION POST RETIREMENT
## LONDON HYDRO INC.

05 February 2014

MARSH & McLENNAN COMPANIES

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# 1

## Report Highlights

Mercer has prepared this report for London Hydro ("London Hydro") to present actuarial estimates of liabilities as of 31 December 2013 for the following plans:

- non-pension post retirement benefits
- post employment retirement allowances
- medical/dental benefits paid while on long term disability

for London Hydro to incorporate, as London Hydro deems appropriate, in its financial statements under Section 3461 under Part V of the Chartered Professional Accountants of Canada Handbook ("CPA Handbook – Part V – Section 3461") and to provide an estimate of the benefit cost for the fiscal year ending 31 December 2014.

**All sections of this report relate to reporting under CPA Handbook – Part V – Section 3461, unless specified otherwise.**

London Hydro's fiscal year-end date is 31 December and the measurement date for the plan obligations as described in this report is 31 December.

London Hydro values a liability for retirement allowances and medical/dental benefits paid while on long term disability (LTD). The results for these benefits are shown separately in the summary of results and at the end of the report highlights in a section called 'Other Benefits'. All other sections do not include these benefits unless otherwise specified.

All results presented in this report are in Canadian dollars.

Please see Section 3 of this report provides further explanation as to the purposes and limitations of this report.

# Summary of Results

Below are highlights of the results as of 31 December 2013 compared to the corresponding figures as of 31 December 2012.

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Post Retirement | Retirement Allowance | Medical/Dental on LTD | Total |
| Benefit cost | $973,400 | $0 | ($16,800) | $956,600 |
| Benefit obligation | $12,669,400 | $58,400 | $167,500 | $12,895,300 |
| Unrecognized Loss (Gain) | $1,162,200 | $0 | $0 | $1,162,200 |
| Net asset (liability) recognized in financial statements | ($11,507,200) | ($58,400) | ($167,500) | ($11,733,100) |
| Discount rate at year-end | 4.70% per year[1] | 5.00% per year[2] | 5.00% per year[2] | |
| Initial weighted average health care trend rate | 6.51% per year | N/A | N/A | |
| Ultimate weighted average health care trend rate | 4.50% per year | N/A | N/A | |
| Year ultimate rate reached | 2028 | N/A | N/A | |

[1] Based on the CIA discount rate model.

[2] Due to materiality, a new valuation was not completed and assumptions were not changed for this benefit for the 2013 disclosure.

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Post Retirement | Retirement Allowance | Medical/Dental on LTD | Total |
| Benefit cost | $856,300 | $0 | $16,800 | $873,100 |
| Benefit obligation | $13,328,400 | $58,400 | $184,300 | $13,571,100 |
| Unrecognized Loss (Gain) | $2,269,700 | $0 | $0 | $2,269,700 |
| Net asset (liability) recognized in financial statements | ($11,058,700) | ($58,400) | ($184,300) | ($11,301,400) |
| Discount rate at year-end | 4.00% per year | 5.00% per year | 5.00% per year | |
| Initial weighted average health care trend rate | 6.58% per year | N/A | N/A | |
| Ultimate weighted average health care trend rate | 4.50% per year | N/A | N/A | |
| Year ultimate rate reached | 2028 | N/A | N/A | |

The 2013 benefit cost includes no charges/credits due to special events.

The estimated benefit cost for the non-pension post retirement benefits fiscal year 2014 is $935,500 under CPA Handbook – Part V – Section 3461. The estimated 2014 benefit cost information is in Appendix B.

Please note that the estimated 2014 benefit cost may be substantially different and may be revised if liabilities are remeasured during the year due to a significant event and/or cash flows are updated.

We have not been notified by London Hydro nor are we aware of any events subsequent to 31 December 2013 which, in our opinion, would have a material impact on the results of the valuation.

## Review of Results

The unfunded obligation increased from $13,571,100 as at 31 December 2012 to $12,895,300 as at 31 December 2013 and there was a current year gain of $1,037,600. An analysis of the sources of this gain is shown in Appendix G

Details of the disclosure information under CPA Handbook – Part V – Section 3461 are shown in Appendix A.

## Changes in Plan Provisions

There were no changes in plan provisions since the previous reporting period. Plan provisions can be found in Appendix F. Please note that London Hydro has a service award benefit that does not require a liability to be held under CPA Handbook – Part V – Section 3461.

## Changes in Actuarial Assumptions

The actuarial assumptions changed since the last disclosure as of 31 December 2012. Details are shown in Appendix D. The approach used for setting the assumptions is similar to the prior year.

## Changes in Actuarial Methods

There have been no changes to the actuarial methods since the prior disclosure. Details regarding the actuarial methods are shown in Appendix E.

## Changes in Data

There have been no changes to the census data since the prior disclosure with the exception of the LTD benefit. The 2011 LTD liability was prorated based on the number of claimants still on LTD. A summary of participant data is provided in Appendix C.

To our knowledge there have been no changes since the prior valuation, not noted already, that will affect the valuation results.

## Transition to International Financial Reporting Standards

London Hydro will be adopting International Financial Reporting Standards – International Accounting Standard 19 (REV 2011) ("IAS 19R") on 01 January 2015. Due to the requirement to provide comparative information in the first set of financial statements, London Hydro will transition to IAS 19R from CPA Handbook – Part V – Section 3461 on 01 January 2014. On that date, a transition adjustment will be made to retained earnings to bring the existing current CPA Handbook – Part V – Section 3461 balances in line with the requirements of IAS 19R. London Hydro will continue to report under current CPA Handbook – Part V – Section 3461 in 2014. Two sets of financial results will be maintained for 2014, one for current CPA Handbook – Part V – Section 3461 and another for IAS 19R. In 2015, IAS 19R will commence with IAS 19R reporting in 2014.

Under International Financial Reporting Standards, London Hydro will follow the requirements of IAS 19R with respect to the non-pension post retirement benefits plan.

## Other Benefits

From 2012 onward, London Hydro requested that a valuation be done with respect to the liabilities for retirement allowances and medical/dental benefits while on LTD. Due to materiality, the liability for medical/dental benefits while on LTD was only adjusted for the change in number of claimants while the liability for retirement allowances was left unchanged. The liability for medical and dental benefits while on LTD as at 31 December 2013 based on a discount rate of 5.0% per annum is $167,500. The corresponding liability for medical and dental benefits while on LTD as at 31 December 2012 based on a discount rate of 5.0% per annum was $184,300. The LTD claimant count decreased from a total of 11 to 10 claimants. The fiscal 2012 disclosure liability was prorated to arrive at the fiscal 2013 disclosure liability. This decrease of $16,800 should be recognized as the benefit credit for fiscal 2013. The liability for retirement allowances as at 31 December 2013 was unchanged and based on a discount rate of 5.0% per annum is $58,400, resulting in a benefit cost of 0.

These other benefits are excluded unless otherwise indicated from the results in the remainder of the report.

# 2

# Basis of Valuation

## Plan Data

Mercer has used and relied on participant data as at 30 September 2011 as provided by London Hydro. The participant data is summarized in Appendix C.

London Hydro is responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the plans or otherwise entitled to benefits that is sufficiently comprehensive and accurate for the purposes of this report. If the data supplied are not sufficiently comprehensive and accurate for the purposes of this report, the valuation results may differ significantly from the results that would be obtained with such data; this may require a later revision of this report. We have applied tests for internal consistency, as well as for consistency with the data from the previous valuation. Although Mercer has reviewed the data for internal consistency and general reasonableness Mercer has not verified or audited any of the data or information provided.

## Actuarial Assumptions

To prepare the valuation report, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plans actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely “correct” and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A "sensitivity analysis" shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report.

The sensitivity of the results to changes in the healthcare trend rate assumption for the non-pension postretirement benefits is shown in Appendix A. We have not been engaged to perform any additional sensitivity analysis and thus the results of such an analysis are not included in this report. At London Hydro's request, Mercer is available to perform additional sensitivity or scenario analysis.

Assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

## Actuarial Methods

A valuation report is only a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict the plan's future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of the plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modelling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of estimates to facilitate the modelling of future events in an efficient and cost-effective manner. We may also exclude factors or data that, if used, in our judgment, would not have significantly affected our results. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

Valuations do not affect the ultimate cost of the plan, only the timing of when benefit costs are recognized. Cost recognition occurs over time. If the costs recognized over a period of years are lower or higher than necessary, for whatever reason, normal and expected practice is to adjust future expense levels with a view to recognizing the entire cost of the plan over time.

As instructed, Mercer has prepared the accounting disclosures in this report based on London Hydro's accounting policies.

A summary of the actuarial methods, accounting policies and valuation procedures is provided in Appendix E.

## Plan Provisions

Mercer has used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by London Hydro as summarized in Appendix F. London Hydro is solely responsible for the validity, accuracy and comprehensiveness of this information. If any plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be subject to different interpretations, each of which could be reasonable, and the results under each of the different interpretations could vary. These plan provisions have been certified by London Hydro under Employer Certification in Appendix H.

# 3

## Notices and Statement of Opinion

Mercer has prepared this report exclusively for London Hydro Inc.; subject to this limitation, London Hydro may direct that this report be provided to its auditors in connection with the audit of its financial statements. Mercer is not responsible for use of this report by any other party.

The only purposes of this report are to present actuarial estimates of liabilities as at 31 December 2013 for the London Hydro's:

- post retirement post retirement benefits
- post employment retirement allowances
- medical/dental benefits paid while on long term disability

for London Hydro to incorporate, as London Hydro deems appropriate, in its financial statements under CPA Handbook – Part V – Section 3461 and to provide an actuarial estimate of benefit cost for the non-pension postretirement benefits for the fiscal year ending 31 December 2014.

This report may not be used for any other purpose. Mercer is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

This report was prepared in accordance with generally accepted actuarial principles and procedures. The actuarial assumptions were selected by London Hydro. I am not expressing any opinion on these assumptions.

All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used or relied upon without reference to the report as a whole.

Decisions about benefit changes, granting new benefits, funding policy, benefit security and/or benefit-related issues should not be made solely on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors.

London Hydro is ultimately responsible for selecting the accounting policies, methods and assumptions. This information is referenced or described in section 2 of this report. The plan sponsor is solely responsible for communicating to Mercer any changes required to those policies, methods and assumptions.

Mercer is providing the valuation report in its capacity as actuary and as such, the report is not a substitute for advice from an accountant or lawyer.

The calculations have been made in accordance with our understanding of applicable laws and regulations, and of requirements of CPA Handbook- Part V – Section 3461, reflecting application of London Hydro's accounting policies described in this report.

London Hydro should notify Mercer promptly after receipt of this valuation report if London Hydro disagrees with anything contained herein or is aware of any information that would affect the results of this report that has not been communicated to Mercer or incorporated therein. The valuation report will be deemed final and acceptable to London Hydro unless London Hydro promptly provides such notice to Mercer.

## Statement of Opinion

The methods used in the valuations of benefit obligations and determination of plan costs were selected by the management of London Hydro Inc. ("Management") in accordance with the requirements of CPA Handbook – Part V – Section 3461.

The preparers of the financial statements have selected the assumptions used in the valuations of the plan obligations and determination of plan costs. They are Management's best-estimate assumptions, selected for accounting purposes, in accordance with CPA Handbook – Part V – Section 3461. I am not expressing any opinion on these assumptions.

In my opinion,

- The data on which the valuations are based are sufficient and reliable for the purposes of the valuations, and;
- The calculations have been made in accordance with the requirements of CPA Handbook – Part V – Section 3461.

This report has been prepared and my opinion given, in accordance with accepted actuarial practice in Canada.

Respectfully submitted,

Lois Pavlich

February 07, 2014

**Lois Pavlich**
**Fellow of the Society of Actuaries**
**Fellow of the Canadian Institute of Actuaries**

**Date**

**Mercer**
**161 Bay Street, P.O. Box 501**
**Toronto, Ontario  M5J 2S5**
**Phone: +1 416 868 2050**

# APPENDIX A

## Disclosure Information for Non-Pension Post Retirement Benefits Only[3]

| | | |
|---|---|---|
| From | 1/1/2013 | 1/1/2012 |
| To | 12/31/2013 | 12/31/2012 |
| **Change in benefit obligation** | | |
| Benefit obligation - end of prior period | 13,328,400 | 11,478,800 |
| Current service cost (employer) | 368,200 | 283,400 |
| Interest cost | 535,300 | 572,900 |
| Employee contributions | 0 | 0 |
| Plan amendments | 0 | 0 |
| Benefits paid | (524,900) | (437,800) |
| Net transfer in (out) | 0 | 0 |
| Acquisitions (divestitures) | 0 | 0 |
| Increase (decrease) in obligation due to curtailment | 0 | 0 |
| Obligation being settled | 0 | 0 |
| Special termination benefits | 0 | 0 |
| Actuarial loss (gain) | (1,037,600) | 1,431,100 |
| Benefit obligation - end | 12,669,400 | 13,328,400 |
| **Change in plan assets** | | |
| Market value of plan assets - end of prior period | 0 | 0 |
| Actual return on plan assets | 0 | 0 |
| Employer contributions | 524,900 | 437,800 |
| Employee contributions | 0 | 0 |
| Benefits paid | (524,900) | (437,800) |
| Surplus paid out to employer | 0 | 0 |
| Settlement payments | 0 | 0 |
| Net transfer in (out) | 0 | 0 |
| Acquisitions (divestitures) | 0 | 0 |
| Actual plan expenses | 0 | 0 |
| Market value of plan assets - end | 0 | 0 |

[3] Retirement Allowance and LTD disclosure information can be found in Report Highlights.

| | 1/1/2013 | 1/1/2012 |
|---|---|---|
| From | 1/1/2013 | 1/1/2012 |
| To | 12/31/2013 | 12/31/2012 |
| **Reconciliation of funded status** | | |
| Benefit obligation - end | 12,669,400 | 13,328,400 |
| Market value of plan assets - end | 0 | 0 |
| Funded status - surplus (deficit) | (12,669,400) | (13,328,400) |
| Employer contributions after measurement date | 0 | 0 |
| Unamortized transitional obligation (asset) | 0 | 0 |
| Unamortized past service costs | 0 | 0 |
| Unamortized net actuarial loss (gain) | 1,162,200 | 2,269,700 |
| Accrued benefit asset (liability) | (11,507,200) | (11,058,700) |
| Unamortized | 0 | 0 |
| Valuation allowance | 0 | 0 |
| Accrued benefit asset (liability), net of valuation allowance | (11,507,200) | (11,058,700) |
| **Components of benefit cost** | | |
| Current service cost (including provision for plan expenses) | 368,200 | 283,400 |
| Interest cost | 535,300 | 572,900 |
| Expected return on plan assets | 0 | 0 |
| Amortization of transitional obligation (asset) | 0 | 0 |
| Amortization of past service costs | 0 | 0 |
| Amortization of net actuarial loss (gain) | 69,900 | 0 |
| Curtailment loss (gain) | 0 | 0 |
| Settlement loss (gain) | 0 | 0 |
| Amortization of transitional increase (decrease) in VA | 0 | 0 |
| Increase (decrease) in valuation allowance | 0 | 0 |
| Special termination benefits | 0 | 0 |
| Net benefit cost (credit) | 973,400 | 856,300 |

| | | |
|---|---|---|
| From | 1/1/2013 | 1/1/2012 |
| To | 12/31/2013 | 12/31/2012 |
| **Assumptions** | | |
| At beginning of period | | |
| Discount rate | 4.00% | 5.00% |
| Health care inflation - Select | 6.58% | 6.69% |
| Health care inflation - Ultimate | 4.50% | 4.50% |
| At end of period | | |
| Discount rate | 4.70% | 4.00% |
| Health care inflation - Select | 6.51% | 6.58% |
| Health care inflation - Ultimate | 4.50% | 4.50% |
| **Additional year-end information** | | |
| Required disclosures for post-employment medical plans | | |
| Sensitivity to trend rate assumptions | | |
| a. One percent increase in trend rate | | |
| i. Effect on total service cost and interest cost components | 149,300 | 114,600 |
| ii. Effect on benefit obligation | 1,466,400 | 1,435,900 |
| b. One percent decrease in trend rate | - | |
| i. Effect on total service cost and interest cost components | (115,100) | (90,400) |
| ii. Effect on benefit obligation | (1,168,200) | (1,146,100) |
| **Cash flow projection** | | |
| Expected benefit payments for the following years: | | |
| 2014: | 645,700 | |
| 2015: | 672,500 | |
| 2016: | 690,300 | |
| 2017: | 733,900 | |
| 2018: | 747,000 | |
| Next five years | 4,211,100 | |

# APPENDIX B

## Estimated 2014 Benefit Cost Information under CPA Handbook – Part V – Section 3461 for Non-Pension Post Retirement Benefits Only[4]

| | |
|---|---|
| From | 1/1/2014 |
| To | 12/31/2014 |
| **Components of benefit cost** | |
| Current service cost (including provision for plan expenses) | 339,300 |
| Interest cost | 596,200 |
| Expected return on plan assets | 0 |
| Amortization of transitional obligation (asset) | 0 |
| Amortization of past service costs | 0 |
| Amortization of net actuarial loss (gain) | 0 |
| Curtailment loss (gain) | 0 |
| Settlement loss (gain) | 0 |
| Amortization of transitional increase (decrease) in VA | 0 |
| Increase (decrease) in valuation allowance | 0 |
| Special termination benefits | 0 |
| Net benefit cost (credit) | 935,500 |
| **Assumptions** | |
| At beginning of period | |
| Discount rate | 4.70% |
| Health care inflation - Select | 6.51% |
| Health care inflation - Ultimate | 4.50% |
| At end of period | |
| Discount rate | 4.70% |
| Health care inflation - Select | 6.44% |
| Health care inflation - Ultimate | 4.50% |

[4] Retirement Allowance and LTD disclosure information can be found in Report Highlights

# APPENDIX C

## Participant Data

The actuarial valuations are based on participant data as at 30 September 2011 provided by London Hydro. Plan participant data are summarized below. For comparison, we have also summarized corresponding data from the previous valuation.

### Analysis of Participant Data

| | 30.09.11 | 30.06.10 |
|---|---|---|
| **Total Active Participants**[5] | | |
| Number | | |
| • Fully Eligible | 62 | 49 |
| • Not Fully Eligible | 221 | 208 |
| **Total** | **283** | **257** |
| Average age | 46.6 years | 47.0 years |
| Average years of service | 16.2 | 17.0 |

[5] The active participant population for non-pension post retirement benefits are the same population used in the retirement allowance valuation.

| | 30.09.11 | 30.06.10 |
|---|---|---|
| **Total Retired Participants and Surviving Spouses** | | |
| Number | | |
| Pre-65 | 37 | 43 |
| Post-65 | 173 | 169 |
| Average age | | |
| Pre-65 | 61.1 years | 60.6 years |
| Post-65 | 77.7 years | 77.4 years |
| Number with life insurance | | |
| Pre-65 | 10 | 14 |
| Post-65 | 127 | 132 |
| Number with Medical or Dental Benefits | | |
| Pre-65 | 37 | 43 |
| Post-65 | 132 | 132 |
| Number with Family coverage | | |
| Pre-65 | 31 | 36 |
| Post-65 | 66 | 72 |
| Average age of spouse | | |
| Pre-65 | 60.3 years | 58.9 years |
| Post-65 | 73.8 years | 72.8 years |

| | 30.09.11 | 30.06.10 |
|---|---|---|
| **Retired Participants with Pre-65 Hospital, Drug, EHC, Vision, OOC and Dental Benefits** | | |
| Number | | |
| Single | 5 | 6 |
| Family | 32 | 37 |
| **Total** | **37** | **43** |
| Average age of retiree | 61.1 years | 60.7 years |
| Average age of spouse | 60.3 years | 58.9 years |
| **Retired Participants with Pre-65 Life Insurance Benefits** | | |
| • Number | 10 | 14 |
| • Average age of retiree | 62.7 years | 62.0 years |
| • Average insurance amount | $28,717 | $29,525 |
| **Retired Participants with Post-65 Hospital Benefits** | | |
| Number | | |
| Single | 17 | 17 |
| Family | 35 | 39 |
| **Total** | **52** | **56** |
| Average age of retiree | 79.5 years | 78.3 years |
| Average age of spouse | 75.4 years | 75.2 years |
| **Retired Participants with Post-65 Drug, EHC and OOC Benefits** | | |
| Number | | |
| Single | 36 | 30 |
| Family | 88 | 95 |
| **Total** | **124** | **125** |
| Average age of retiree | 77.5 years | 76.6 years |
| Average age of spouse | 74.0 years | 73.0 years |

| | 30.09.11 | 30.06.10 |
|---|---|---|
| **Retired Participants with Post-65 Vision Benefits** | | |
| Number | | |
| Single | 20 | 18 |
| Family | 26 | 28 |
| **Total** | **46** | **46** |
| Average age of retiree | 76.4 years | 75.2 years |
| Average age of spouse | 73.4 years | 74.2 years |
| **Retired Participants with Post-65 Dental Benefits** | | |
| Number | | |
| Single | 19 | 14 |
| Family | 38 | 40 |
| **Total** | **57** | **54** |
| Average age of retiree | 76.4 years | 75.2 years |
| Average age of spouse | 72.1 years | 71.3 years |
| **Retired Participants with Post-65 Life Insurance Benefits** | | |
| • Number | 127 | 132 |
| • Average age of retiree | 78.3 years | 77.7 years |
| • Average insurance amount (valuation year) | $37,684 | $37,626 |

## Analysis of Post Employment Participant Data

| | 30.09.11 |
|---|---|
| **Total Disabled Participants**[6] | |
| Number Receiving Continuation of Medical & Dental | 7 |
| Average age | 47.4 years |
| Average disability duration | 5.6 |

[6] 10 people were reported as being on LTD as at 31 December 2013.

# APPENDIX D

## Actuarial Assumptions

### Summary of Assumptions for Non-Pension Post Retirement Benefit Plan

The following assumptions were used in valuing the benefit obligations under the non-pension post retirement benefits plan.

| | | |
|---|---|---|
| *Measurement date* | 31 December | |
| *Discount rate* | • 5.00% per annum for the 2012 benefit cost determination<br>• 4.00% per annum for 31 December 2012 disclosure[7] and 2013 benefit cost determination<br>• 4.70% per annum for 31 December 2013 disclosure[7] and estimated 2014 benefit cost determination | |
| *Salary increases* | 4.00% per annum | |
| *Health care cost trend rates* | Hospital | 4.5% per annum |
| | Prescription drugs | 8.5% per annum in 2011 grading down to 4.5% per annum in and after 2028 |
| | Other Medical | 4.5% per annum |
| | Vision Care | 4.5% per annum |
| | Dental | 4.5% per annum |
| *Mortality* | • UP 1994 Table with generational mortality improvement for 2012 benefit cost determination, 31 December 2012 disclosure and 2013 benefit cost determination<br>• 90% UP 1994 Table with improvements projected to 2014 using scale AA and with future generational mortality improvements based on 150% of projection scale AA for 31 December 2013 disclosure and estimated 2014 benefit cost determination | |

[7] Please note that London Hydro chose the CIA discount model to determine the discount rate under CPA Handbook – Part V – Section 3461.

*Withdrawal*

Mercer “Ontario Light” Termination table

Rates at sample ages are shown below:

| Age | Male | Female |
|---|---|---|
| 20 | 18.8% | 18.8% |
| 30 | 5.6% | 5.6% |
| 40 | 2.2% | 2.2% |
| 50 | 1.2% | 1.2% |
| 60 | 0.0% | 0.0% |

No withdrawal assumed after attainment of eligibility for retirement.

*Retirement rates*

| Age | Rate |
|---|---|
| 55 – 59 | 7% |
| 60 – 62 | 11% |
| 63 | 12% |
| 64 | 13% |
| 65+ | 100% |

*Dependent coverage*

80% of active members are assumed to elect dependant coverage upon retirement

Actual coverage data provided by the client is used for retired members.

*Age difference*

For active members, a male is assumed to be 3 years older than his spouse.

Actual data provided by the client is used for retired members.

| | | Pre-65 Plan | Post-65 Plan |
|---|---|---|---|
| *2011 Age 65 per capita claims costs*[8] | Semi-private hospital | $97 | $145 |
| | Prescription drugs | 2,057 | 726 |
| | Other medical | 266 | 242 |
| | Vision care | 109 | 85 |
| | Out of Province | 230 | 363 |
| | Dental care | 557 | 811 |
| | **Total** | **$3,316** | **$2,372** |

*Claims cost development*

The 2011 age 65 per capita claim costs are based on the group's claims experience from 01 October 2008 to 30 September 2011 trended to the mid point of the valuation period, adjusted to age 65 and loaded 21% for administrative expenses and taxes.

Claims costs were developed separately for Pre-65 and Post-65 retirees based on separate experience for each of these groups.

The Out of Province rates were developed using 01 January 2012 premium rates.

*Aging factors*

The change in claiming levels from one age to the next are shown below for sample ages:

| Age | Prescription Drug | Semi Private Hospital | Other Medical | Vision | Dental |
|---|---|---|---|---|---|
| 55 | 3.8% | 7.0% | (0.2)% | (0.5)% | (0.4)% |
| 60 | 2.8% | 7.8% | (0.6)% | (0.6)% | (0.7)% |
| 65 | 2.1% | 10.0% | (0.5)% | (0.6)% | (0.9)% |
| 70 | 1.1% | 9.5% | 1.2% | (0.5)% | (1.1)% |
| 75 | 0.5% | 9.3% | 1.7% | (0.6)% | (1.3)% |
| 80 | (0.2)% | 8.2% | 2.2% | (0.6)% | (1.8)% |
| 85 | (0.3)% | 6.8% | 2.3% | (0.7)% | (2.9)% |

8 2011 claim cost (April 1, 2011 mid-point). Post-65 claims cost is before adjustment for 15% company cost sharing.

| | | | |
|---|---|---|---|
| *Administrative expenses as a percentage of paid claims* | Medical | 10.0% | Not applied to Out of Province as valuing fully pooled premium |
| | Dental | 10.0% | |
| | Life insurance | 16.8% | |
| *Taxes* | 8% of claims and administrative expenses for all medical and dental benefits.<br>2% premium tax on claims and administration expenses.<br>8% sales tax on claims, administration expenses and premium tax for life insurance. | | |
| *Participation – Pre-65* | 100% of members assumed to participate in the pre-65 retiree health plan. | | |
| *Participation – Post-65* | • 100% for drugs, OOP and other medical<br>• 50% for hospital, vision and dental | | |

## Summary of Assumptions for Retirement Allowances

The following assumptions were used in valuing the benefit obligations for the retirement allowances.

| | |
|---|---|
| *Measurement date* | 31 December |
| *Discount rate*[9] | ▪ 5.00% per annum for 31 December 2012 disclosure and 31 December 2013 disclosure |
| *Mortality* | UP 1994 Table with generational mortality improvement |
| *Withdrawal* | Mercer "Ontario Light" Termination table<br>Rates at sample ages are shown below: |

| Age | Male | Female |
|---|---|---|
| 20 | 18.8% | 18.8% |
| 30 | 5.6% | 5.6% |
| 40 | 2.2% | 2.2% |
| 50 | 1.2% | 1.2% |
| 60 | 0.0% | 0.0% |

No withdrawal assumed after attainment of eligibility for retirement.

[9] Due to materiality, the liability for this benefit was not adjusted.

| | | |
|---|---|---|
| *Retirement rates* | **Age** | **Rate** |
| | 55 – 59 | 7% |
| | 60 – 62 | 11% |
| | 63 | 12% |
| | 64 | 13% |
| | 65+ | 100% |
| *Taxes* | 13% sales HST tax | |

## Summary of Assumptions for Other Long Term Benefits

The following assumptions were used in valuing the benefit obligations for other long term benefits (medical/dental benefits while on long term disability).

| | | | |
|---|---|---|---|
| *Measurement date* | 31 December | | |
| *Discount rate*[10] | • 5.00% per annum for 31 December 2012 disclosure and 31 December 2013 disclosure | | |
| *2011 premiums* | | **Single** | **Family** |
| | Semi-private hospital | $149 | $262 |
| | Vision care | 96 | 314 |
| | Other Medical | 3,497 | 5,390 |
| | Total Medical | 3,742 | 5,966 |
| | Dental care | 695 | 1,609 |
| | **Total** | **$4,437** | **$7,575** |

[10] Due to materiality, the liability for this benefit was only adjusted for head counts for the 31 December 2012 and 31 December 2013 disclosures.

| | |
|---|---|
| *Premium development* | The 2011 per capita claim costs are based on the group's healthy premium rates multiplied by a disabled factor of 3 for all medical benefits. |
| *Termination of Benefits* | Age 65 |
| *Recovery assumption* | Mortality and recovery rate assumptions for medical and dental benefits provided to disabled employees are based on Canadian Group LTD Termination Experience 1988-1997.<br>Modification factors vary by age and time since disability and are available upon request. |

## Claims Cost Development

The 2011 age 65 per capita claim costs are based on the group's claims experience from 01 October 2008 to 30 September 2011 trended to the mid point of the valuation period, adjusted to age 65 and loaded 21% for administrative expenses and taxes. Claims costs were developed separately for Pre-65 and Post-65 retirees based on separate experience for each of these groups.

The per covered member claim costs used in the 30 September 2011 valuation and extrapolated for purposes of determining the liabilities as at 31 December 2013 were based on the actual retiree and dependent claims information for the 01 October 2009 to 30 September 2011, increased with assumed health care cost trend rates to 2013 This claims experience was collected and analysed separately for Semi-Private Hospital, Prescription Drugs, Other Medical, Vision Care, Out of Province and Dental benefits. Claims experience was also collected and analysed separately for Pre-65 and Post-65 retirees.

A description of the process used to set the "Age 65 per capita claims costs" (shown in Appendix D – Actuarial Assumptions) is as follows:

- For each calendar year of claims, a cost per covered member was developed by dividing the total annual claims by the total number of eligible retirees, and dependents covered during the year.
- This cost per person has been adjusted to the cost per covered member at age 65 based on the individual ages of the covered members using the "Aging factors" assumptions shown in Appendix D – Actuarial Assumptions).
- These costs have been increased to include the cost of insurance company administrative expenses and provincial taxes charged on the claims.
- The costs are then increased with assumed health care cost trend rates from the claims experience year to the midpoint of the valuation year of 30 September 2011.
- As indicated, this analysis was performed for each experience period 2009/10, 2010/11 and 2011/12. The assumed cost per covered member for the 30 September 2011 valuation was based on a weighted average of the costs for the three years, as follows:

| Percentage Contribution to Valuation Assumed 2011 Claim Cost | Hospital, Vision, Other medical and Dental | Prescription Drugs |
|---|---|---|
| 2009/10 claims experience | 30% | 40% |
| 2010/11 claims experience | 40% | 40% |
| 2011/12 claims experience | 40% | 20% |
| **Total** | **100%** | **100%** |

Development of Non-Pension Post retirement **Pre-65** Claims Costs Assumptions for 2012 Per Covered Member Claim Costs at Age 65

| | 2011/12 | 2010/11 | 2009/10 |
|---|---|---|---|
| **Actual London Hydro Pre-65 retirees' paid claims (before administration costs and taxes)**[11] | | | |
| Hospital | $ 2,115 | $ 1,410 | $ 1,410 |
| Drug | 58,250 | 96,394 | 102,726 |
| Vision care | 5,896 | 6,030 | 6,731 |
| Other medical | 16,204 | 14,293 | 11,947 |
| Dental | 28,412 | 32,872 | 29,852 |
| **Total** | $ 110,877 | $ 151,000 | $ 152,666 |
| **Number of London Hydro retirees, spouses and surviving spouses** | | | |
| ▪ Eligible for medical benefits | 67 | 80 | 83 |
| ▪ Eligible for prescription drug benefits | 67 | 80 | 84 |
| ▪ Eligible for dental benefits | 67 | 80 | 83 |
| **Pre-65 Per covered member costs** | | | |
| Hospital | $ 31.57 | $ 17.63 | $ 16.99 |
| Drug | 869.41 | 1,204.93 | 1,222.93 |
| Vision care | 88.00 | 75.38 | 80.13 |
| Other medical | 241.84 | 178.66 | 142.23 |
| Dental | 424.06 | 410.90 | 359.66 |
| **Total** | $ 1,654.88 | $ 1,887.50 | $ 1,821.94 |
| **Trend to 31 March 2013** | | | |
| Hospital | 1.0450 | 1.0920 | 1.1412 |
| Drug | 1.0833 | 1.1759 | 1.2791 |
| Vision care | 1.0000 | 1.0000 | 1.0000 |
| Other medical | 1.0450 | 1.0920 | 1.1412 |
| Dental | 1.0450 | 1.0920 | 1.1412 |

[11] The Out of Province Costs are not listed here as the premium rates were used in development rather then actual costs.

| | | | |
|---|---|---|---|
| **2011 Pre-65 per covered member costs** | | | |
| Hospital | $ 32.99 | $ 19.25 | $ 19.39 |
| Drug | 941.78 | 1,416.83 | 1,564.18 |
| Vision care | 88.00 | 75.38 | 80.13 |
| Other medical | 252.73 | 195.10 | 162.31 |
| Dental | 443.15 | 448.72 | 410.44 |
| **Total** | $ 1,758.65 | $ 2,155.28 | $ 2,236.44 |
| **Weighting for Hospital, Vision, Other medical and Dental** | **40%** | **30%** | **30%** |
| **Weighting for Prescription Drugs** | **20%** | **40%** | **40%** |

| | |
|---|---|
| **2011 Pre-65 per covered member costs** | |
| Hospital | $ 24.78 |
| Drug | 1,380.76 |
| Vision care | 81.85 |
| Other medical | 208.31 |
| Dental | 435.00 |
| **Total** | $ 2,130.72 |
| **Adjustment factors to convert 2011 per covered member costs into age 65 per covered member costs** | |
| Hospital | 3.23 |
| Drug | 1.23 |
| Vision care | 1.10 |
| Other medical | 1.06 |
| Dental | 1.06 |
| **Pre-65 Per covered member age 65 claims costs (2011 per covered member costs x adjustment factors)** | |
| Hospital | $ 80.00 |
| Drug - incorporating 55% drug offset | 1,700.00 |
| Vision care | 90.00 |
| Other medical | 220.00 |
| Dental | 460.00 |
| **Total** | $ 2,550.00 |

| **Administration costs and taxes** | | |
|---|---|---|
| ▪ Administration costs for medical and dental | 10.00% | of claims |
| ▪ Premium and sales taxes | 10.00% | of claims |
| **Total administration costs and taxes** | 21.00% | **of claims** |

| **Age-65 Per covered member age 65 claims costs with administration costs and taxes** | |
|---|---|
| Hospital | $ 96.80 |
| Drug | 2,057.00 |
| Vision care | 108.90 |
| Other medical | 266.20 |
| Dental | 556.60 |
| **Total** | $ 3,085.50 |

| **Benefit adjustment factors due to differences in plan provisions** | |
|---|---|
| Hospital | 1.00 |
| Drug | 1.00 |
| Vision care | 1.00 |
| Other medical | 1.00 |
| Dental | 1.00 |

| **London Hydro 2011 Pre-65 per covered member age 65 claims costs with administration costs and taxes** | |
|---|---|
| Hospital | $ 97 |
| Drug | 2,057 |
| Vision care | 109 |
| Other medical | 266 |
| Dental | 557 |
| **Total** | $ 3,086 |
| | |
| Out of Province Premiums | 230 |
| **Total** | $ 3,316 |

Development of Non-Pension Post retirement **Post-65** Claims Costs Assumptions for 2012 Per Covered Member Claim Costs at Age 65

| | 2011/12 | 2010/11 | 2009/10 |
|---|---|---|---|
| **Actual London Hydro Post-65 retirees' paid claims (before administration costs and taxes)**[12] | | | |
| Hospital | $ 19,035 | $ 10,164 | $ 54,575 |
| Drug | 111,852 | 103,229 | 96,620 |
| Vision care | 5,391 | 1,755 | 3,600 |
| Other medical | 35,078 | 28,392 | 22,128 |
| Dental | 55,085 | 46,625 | 38,634 |
| **Total** | $ 5,100 | $ 1,400 | $ 2,125 |
| **Number of London Hydro retirees, spouses and surviving spouses** | | | |
| ▪ Eligible for medical benefits | 74 | 75 | 79 |
| ▪ Eligible for prescription drug benefits | 191 | 189 | 188 |
| ▪ Eligible for dental benefits | 91 | 86 | 82 |
| **Post-65 Per covered member costs** | | | |
| Hospital | $ 257.23 | $ 135.52 | $ 690.82 |
| Drug | 585.61 | 546.19 | 513.93 |
| Vision care | 85.57 | 28.77 | 59.02 |
| Other medical | 256.51 | 170.51 | 149.42 |
| Dental | 605.33 | 542.15 | 471.15 |
| **Total** | $ 1,790.25 | $ 1,423.13 | $ 1,884.34 |
| **Trend to 31 March 2013** | | | |
| Hospital | 1.0450 | 1.0920 | 1.1412 |
| Drug | 1.0833 | 1.1759 | 1.2791 |
| Vision care | 1.0000 | 1.0000 | 1.0000 |
| Other medical | 1.0450 | 1.0920 | 1.1412 |
| Dental | 1.0450 | 1.0920 | 1.1412 |

[12] The Out of Province Costs are not listed here as the premium rates were used in development rather then actual costs.

| | | | |
|---|---|---|---|
| **2011 Post-65 per covered member costs** | | | |
| Hospital | $ 268.81 | $ 147.99 | $ 788.34 |
| Drug | 634.36 | 642.24 | 657.35 |
| Vision care | 85.57 | 28.77 | 59.02 |
| Other medical | 268.06 | 186.20 | 170.51 |
| Dental | 632.57 | 592.04 | 537.66 |
| **Total** | $ 1,889.36 | $ 1,597.24 | $ 2,212.88 |
| **Weighting** | **40%** | **30%** | **30%** |

| | |
|---|---|
| **2011 Post-65 per covered member costs** | |
| Hospital | $ 388.42 |
| Drug | 643.62 |
| Vision care | 60.56 |
| Other medical | 214.24 |
| Dental | 591.94 |
| **Total** | $ 1,898.78 |

| | |
|---|---|
| **Adjustment factors to convert 2011 per covered member costs into age 65 per covered member costs** | |
| Hospital | 0.31 |
| Drug | 0.93 |
| Vision care | 1.16 |
| Other medical | 0.93 |
| Dental | 1.13 |

| | |
|---|---|
| **Post-65 Per covered member age 65 claims costs (2011 per covered member costs x adjustment factors)** | |
| Hospital | $ 120.00 |
| Drug - incorporating 55% drug offset | 600.00 |
| Vision care | 70.00 |
| Other medical | 200.00 |
| Dental | 670.00 |
| **Total** | $ 1,660.00 |

| | | |
|---|---|---|
| **Administration costs and taxes** | | |
| ▪ Administration costs for medical and dental | 10.00% | of claims |
| ▪ Premium and sales taxes | 10.00% | of claims |
| **Total administration costs and taxes** | 21.00% | **of claims** |

| | |
|---|---|
| **Post-65 Per covered member age 65 claims costs with administration costs and taxes** | |
| Hospital | $ 145.20 |
| Drug | 726.00 |
| Vision care | 84.70 |
| Other medical | 242.00 |
| Dental | 810.70 |
| **Total** | $ 2,008.60 |
| **Benefit adjustment factors due to differences in plan provisions** | |
| Hospital | 1.00 |
| Drug | 1.00 |
| Vision care | 1.00 |
| Other medical | 1.00 |
| Dental | 1.00 |
| **London Hydro 2011 Post-65 per covered member age 65 claims costs with administration costs and taxes** | |
| Hospital | $ 145 |
| Drug | 726 |
| Vision care | 85 |
| Other medical | 242 |
| Dental | 811 |
| **Total** | $ 2,009 |
| Out of Province Premiums | 363 |
| **Total** | $ 2,372 |

# APPENDIX E

## Actuarial Methods

### Valuations and Extrapolations for Non-Pension Post Retirement Benefits

We have prepared an actuarial valuation of London Hydro's non-pension post retirement benefit obligations for accounting purposes as at 30 September 2011 and extrapolated those results to 31 December 2012. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the benefit cost for the non-pension post retirement benefit plan in accordance with CPA Handbook – Part V – Section 3461 for the fiscal year beginning 01 January 2013 and ending 31 December 2013 to enable London Hydro to account for the cost of the non-pension post retirement benefit plan under CPA Handbook – Part V – Section 3461.

In addition, we have prepared a second actuarial valuation of London Hydro Inc.'s benefit obligations for accounting purposes as at 30 September 2011 and extrapolated those results to 31 December 2013. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the obligations of the non-pension post retirement benefit plan in accordance with CPA Handbook – Part V – Section 3461 to enable London Hydro to satisfy the disclosure requirements under CPA Handbook – Part V – Section 3461.

### Cost Method for Non-Pension Post Retirement Benefits and Retirement Allowance Benefits

Accrued Benefit Obligation (ABO) numbers shown in this report are computed using the Projected Benefit Method Pro Rated on Service, as defined in CPA Handbook – Part V – Section 3461. The objective under this method is to expense each member's benefits under the plan as they accrue, taking into consideration projections of benefit costs to and during retirement. The ABO is determined under this method as follows:

Under the Projected Benefit Method Pro Rated on Service, an equal portion of the total estimated future benefit is attributed to each year of service.

The ABO is the actuarial present value of the accrued benefit as of the valuation date and the current service cost is the actuarial present value of the benefit deemed to accrue in the fiscal year.

For retirees, spouses and surviving spouses, the ABO is the present value of all future projected benefits.

For each active member, a “full eligibility” date is determined as the first date the member has or will have met the age and service requirements to qualify for all benefits after retirement.

**Full eligibility** is age 55.

For active members who have reached “full eligibility”, the ABO is the present value as of the valuation date of all future projected benefits. For these members, the service cost is zero.

For active members who have not yet reached “full eligibility”, the ABO is the present value of all future projected benefits, multiplied by the ratio of service at the valuation date to projected service at “full eligibility”. For these members, the current service cost is the present value of benefits as of the valuation date deemed to accrue in the fiscal year, and is determined as the present value of all future projected benefits divided by the projected service at “full eligibility”.

The plan’s current service cost is the sum of the individual current service costs, and the plan’s ABO is the sum of the individual ABO for all members under the plan.

## Cost Method for Medical/Dental Benefits While on LTD

The benefit obligation is the actuarial present value of the expected future benefits as of the valuation date.

## Funding Policy

The non-pension post retirement benefits, retirement allowance benefits and medical/dental benefits while on LTD are funded on a pay-as-you-go basis. London Hydro funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide the non-pension post retirement benefits.

## Accounting Policies for Non-Pension Post Retirement Benefits and Retirement Allowance Benefits

London Hydro has elected to amortize past service costs resulting from plan amendments on a linear basis over the expected average remaining service period (to full eligibility) of active members expected to receive benefits under the plan (9.8 years).

Cumulative gains and losses in excess of 10% of the beginning of year ABO are amortized over the expected average remaining service of active members expected to receive benefits under the plan (13.3 years).

Obligations are attributed to the period beginning on the member's date of hire and ending on the date the member reaches first full eligibility for benefits.

London Hydro's fiscal year-end date is 31 December.

We have used claims and expense data submitted by the London Hydro's insurer without further audit and participant data as supplied by London Hydro. We have reviewed the information for internal consistency, and we have no reason to doubt its substantial accuracy.

## Accounting Policies for Medical/Dental Benefits While on LTD

The liabilities for medical/dental benefits while on LTD are determined on a terminal accounting basis. On this basis, the liability is triggered by each employee's absence, and there is no accrual during active service.

The benefit obligation with respect to the continuation of life insurance coverage, medical and dental benefits and self-insured income replacement benefits during disability has been determined as the present value of expected future benefit payments and expenses as of a particular date.

London Hydro recognizes the full change in this benefit obligation during the period as the benefit cost for the period. Our report does not address actual benefit payments as we do not have information on these amounts. This method of accounting assumes that the actual payments are expensed outside of the accounting shown in this report.

# APPENDIX F

## Plan Provisions

### Non-Pension Post Retirement Benefits Plan

Hourly and Salaried employees who retire from active service after age 55 are entitled to paid up life insurance and continued health and dental benefit coverage for themselves and their eligible family for life.

In general, retirees are entitled to $10,000 paid up life insurance. However, there are certain grandfathered active employees (5 as of 30 June 2009) who are entitled to retiree life insurance equal to 50% of their pre-retirement annual base earnings. Also, the majority of current retirees are entitled to non-paid up life insurance amounts under previous plan provisions equal to flat dollar amounts, 50% of their pre-retirement annual base earnings, or 70% of their pre-retirement life benefit.

### Retiree Divisions

Upon retirement, pre-age 65 hourly retirees are placed in Division 7999 and salaried retirees are placed in Division 7998. Upon the attainment of age 65, hourly and salaried retirees are classified as Division 1983 and 3282 respectively.

The plan provisions for all divisions are summarized below.

## *Division 7999-00 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>All other practitioners (including physiotherapy): $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $250 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,250 / lifetime maximum per person |

## *Division 7999-01 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,200 / year maximum per person |
| Orthodontia | 50% coverage to $1,500 / lifetime maximum per person |

## *Division 7999-05 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $350 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage to a maximum of $500 every 3 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,275 / year maximum per person |
| Major Restorative | 50% coverage to $1,350 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 7999-91 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person includes eye exam |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,250 / year maximum per person |
| Major Restorative | 50% coverage to $1,350 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 7999-92 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>No dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,000 / lifetime maximum per person |

### *Division 7999-96 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,000 / lifetime maximum per person |

## *Division 7998-02 - 100% Company Paid Benefits*

| **Benefit** | **Coverage Summary** |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## *Division 7998-04 - 100% Company Paid Benefits*

| **Benefit** | **Coverage Summary** |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $350 maximum every 24 months per person includes eye exams |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,600 / year maximum per person |
| Major Restorative | 50% coverage to $1,600 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## *Division 7998-10 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $375 maximum every 24 months per person includes eye exams |
| Hearing Aids | 100% standard coverage every 3 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,625 / year maximum per person |
| Major Restorative | 50% coverage to $1,600 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## *Division 7998-82 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 7998-86 - 100% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 7998-90 - 100% Company Paid Benefits*

| **Benefit** | **Coverage Summary** |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>All other practitioners (including physiotherapy): $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $250 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

### *Division 1983-00 – 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>All other practitioners (including physiotherapy): $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $250 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,250 / lifetime maximum per person |

## *Division 1983-01 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,200 / year maximum per person |
| Orthodontia | 50% coverage to $1,500 / lifetime maximum per person |

## *Division 1983-11 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $350 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage to a maximum of $500 every 3 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,275 / year maximum per person |
| Major Restorative | 50% coverage to $1,350 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 1983-94 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person includes eye exam |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,250 / year maximum per person |
| Major Restorative | 50% coverage to $1,350 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 1983-96 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,000 / lifetime maximum per person |

## *Division 1983-98 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>No dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,000 / year maximum per person |
| Major Restorative | 50% coverage to $1,000 / year maximum per person |
| Orthodontia | 50% coverage to $1,000 / lifetime maximum per person |

## *Division 3282-88 - 15% Company Paid Benefits*

| **Benefit** | **Coverage Summary** |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>No dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 3282-86 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $300/calendar year<br>Physiotherapist: No maximum<br>All other practitioners: Various cost per visit and/or calendar year maximums |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $200 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,000 / lifetime maximum per person |

## *Division 3282-90 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>All other practitioners (including physiotherapy): $500/calendar year |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $250 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## *Division 3282-02 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $300 maximum every 24 months per person |
| Hearing Aids | 100% standard coverage every 5 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,500 / year maximum per person |
| Major Restorative | 50% coverage to $1,500 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## *Division 3282-10 - 15% Company Paid Benefits*

| Benefit | Coverage Summary |
|---|---|
| Life | $10,000 Paid Up Life (100% paid for by Company) |
| Extended Health Care | $10 Single Annual Deductible<br>$20 Family Annual Deductible |
| Paramedical | Chiropractor: $350/calendar year<br>Physiotherapist: $750/calendar year<br>All other practitioners: $500/calendar year combined |
| Hospital | 100% Semi-Private coverage, unlimited maximum<br>100% Private coverage, $5,000 / 5 years maximum (subject to Extended Health Care deductible) |
| Drugs | 100% coverage, Paid Direct Drug Card - prescription drugs<br>Coverage limited to lowest priced generic alternative<br>$7.00 dispensing fee cap |
| Vision Care | 100% coverage to $375 maximum every 24 months per person includes eye exams |
| Hearing Aids | 100% standard coverage every 3 years |
| Out of Country | 100% coverage for Emergency Care to a maximum $1,000,000<br>180 day trip maximum<br>Referral coverage to maximum of $50,000 |
| Basic Dental | 100% coverage to $1,625 / year maximum per person |
| Major Restorative | 50% coverage to $1,600 / year maximum per person |
| Orthodontia | 50% coverage to $2,500 / lifetime maximum per person |

## Retirement Allowance Provisions

London Hydro will pay bonus amounts upon retirement.

| Service Level Attained | Bonus Amount |
|---|---|
| Retirement | $500 |

## Disability Plan Provisions

London Hydro shall continue the payment of medical premiums in Article 24:01 for twelve (12) months after expiration of the Corporation sick leave plan.

After twelve (12) months, further payments shall be prorated according to length of service as determined by the posted seniority list as follows:

- Less than five (5) years service - no further payment
- For each year of service over five (5) - six (6) months payment
- In no case shall payment be continued past age sixty-five (65).

When the employee is no longer eligible for Corporation payment of premiums, they may remain in the Corporation group and make across-the-counter payments to continue these benefits.

If payment of medical premiums can be secured from other sources, such as spouse's employment or premium assistance, the Corporation is not obligated for these payments.

# APPENDIX G

## Additional Information

### Analysis of Liability (Gain) Loss - Non-Pension Postretirement Benefits

| (Gains) losses Due to: | Fiscal Year Ending 31.12.2013 |
|---|---|
| Change in mortality table | 322,200 |
| Change in discount rate assumption | ($1,255,200) |
| Actual benefit payments differing from expected | ($104,600) |
| **Total (gains) and losses** | **($1,037,600)** |

### Accumulated Non-Pension Post Retirement Benefit Obligation as at 31 December 2013

| | Medical | Dental | Life | Total |
|---|---|---|---|---|
| Current retirees | $1,984,300 | $371,500 | $3,822,000 | $6,177,800 |
| Other participants fully eligible | 1,486,300 | 275,300 | 313,300 | 2,075,000 |
| Other participants not fully eligible | 3,479,900 | 612,600 | 324,200 | 4,416,600 |
| **Total** | **$6,950,500** | **$1,259,400** | **$4,459,500** | **$12,669,400** |

# APPENDIX H

## Employer Certification

With respect to the Disclosure Report for fiscal year ending 31 December 2013 and estimated 2014 benefit cost of the following plans:
- non-pension post retirement plan
- post employment retirement allowances
- medical/dental benefits payable while on LTD,

I hereby certify that, to the best of my knowledge and belief:
- The participant data supplied to the actuary provides a complete and accurate description of all persons who are entitled to benefits under the terms of the plans for service up to the date of the valuation;
- Copies of the official plan documents and of all amendments made up to 31 December 2013 have been supplied to the actuary;
- All substantive commitments (as defined under Section 3461 in Part V of the Chartered Professional Accountants of Canada Handbook have been communicated to the actuary;
- Accounting policies as adopted by London Hydro Inc. are those described in this report;
- The actuarial methods to be used for the purposes of the valuation are those described in this report;
- Management's best estimate assumptions for purposes of the valuations and the extrapolation of the financial position of the plans as of 31 December 2013 are those described in this report; and
- All events subsequent to the valuation that may have an impact on the results of the valuation or of a future valuation have been communicated to the actuary.

Feb 7, 2014
Date

K Lyons
Signed

Karen Lyons
Name

Financial Services MgR.
Title

MERCER

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MARSH & McLENNAN COMPANIES

# Staff

**Ref: Manager's Summary, Page 1**

LH stated that the largest coverage amount is $137,200

a) Please confirm that the average insurance amount of $37,684 for retired members with post-65 life insurance benefits on page 21 of the Report e as at December 31, 2011 included in LH's last cost of service application only pertains to the grandfathered retiree life insurance benefit program.

LH Response:

London Hydro confirms that the amounts contained on page 21 of the actuarial report do indeed represent the retirees of the grandfathered program.

b) Please provide the most updated average coverage amount.

LH Response:

The total basic life insurance coverage for the 123 individuals totals $4,564,960 for an average amount of $37,113.

# Staff - 7

**Ref: Manager's Summary, Page 2**

LH indicated that Mercer has estimated the cost of the proposed options.

a) Please provide the supporting documents or report from Mercer that estimates the cost of the proposed options.

LH Response:

Please reference Confidential Filing request.

b) Please indicate the interest rates used in projecting the cost estimates.

LH Response:

The interest rate of 4.7% was utilized for the calculations.

File Number: EB-2014-0196

Date Filed: July 2, 2014

# Tab 2 of 2

# LPMA IR's

# LPMA - 1

**LPMA-1**

Ref: Paragraph 4

Does London Hydro agree that the establishment of the requested deferral accounts in no way implies that London Hydro will be able to recover any amounts in the account in a future proceeding? If not, please explain.

LH Response:

London Hydro acknowledges that the requested deferral account does not guarantee that any amounts will be recoverable, although London Hydro expects that due to the questions contained in the document it will provide the basis that the course of action undertaken by London Hydro provides an attempt at reducing the overall costs to customers. Upon request for disposition, London Hydro would still be required to show that the company followed the outlined course of action and worked effectively and efficiently to minimize the costs required in order to eliminate the obligation.

# LPMA - 2

Ref: Manager's Summary

a) Please explain why London Hydro is proposing a deferral account to record the increase in costs rather than requesting treatment of this increase as a Z factor event.

LH Response:

Per Chapter 2 of the OEB Filing Requirements For Electricity Distribution Rate Applications dated July 17, 2013:

> *"Z-factors are intended to provide for unforeseen events outside of a distributor's management control, regardless of a distributors' rate-setting mechanism at the time of the event. The cost to a distributor must be material and its causation clear."*

London Hydro interprets a claim for Z-factors as requests that are usually for costs related to unforeseen events that are outside of the distributor's management control. Traditionally Z-factor claims are normally made after the event has occurred. In this application, London Hydro has control over the decision to pursue action and the timing of potential expenditures. London Hydro is requesting the establishment of deferral accounts allowing London Hydro the opportunity to pursue alternatives for expending volatile costs outside of normal operation as defined in our last cost of service.

London Hydro believes it has options to exercise in dealing with this issue. By being proactive London Hydro believes it can save its rate payers money and wishes to demonstrate its ability to do so. Alternatively London Hydro could take no action in pursuing this exercise and allow the program to run its course naturally at the expense of its ratepayer.

London Hydro is aware that approval of the deferral accounts, in and of itself, does not guarantee recovery in the future request for disposition. But London Hydro also believes that without prior OEB approval for use of deferral accounts, London Hydro may be disqualified from making claim for recovery.

b) Does London Hydro believe that increase in costs associated with the retiree life insurance benefit programs qualifies for treatment as a Z factor event? If yes, please explain fully how the increase in costs meets each of the criteria for a Z factor event (materiality, prudence, causation).

LH Response:

As discussed above London Hydro does not believe this application qualifies as a Z-factor event. The simple reason for this belief is that this event is within managements control and direction. However, London Hydro would believe that that the eligibility criteria for Z-factors would be factors for consideration in deciding disposition of resulting accounts.

Under the causation test London Hydro would contend that the amount incurred will be outside of the base upon which rates were derived. London Hydro has intentionally designed our account requests to ultimately demonstrate that the final costs incurred will be beyond what is currently included in the current rate structure.

Under the materiality test the amounts are expected to exceed the Board-defined materiality threshold and to have a significant influence on the operation of London Hydro.

Under the prudence test the amount must be proved to be been prudently incurred. This means that the London Hydro's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

London Hydro's only wish here is to be allowed leave to pursue alternative options to address this particular issue. London Hydro's believes it has an opportunity to save ratepayers future expense and therefore requires pre-approval to proceed.

# LPMA - 3

Ref: Manager's Summary, page 1

a) The evidence indicates that in the EB-2012-0146 cost of service application the annual premium expense was $210,000. Please provide a reference to the EB-2012-0146 evidence or interrogatory responses where this amount was identified.

LH Response:

The amount isn't specifically identified within the cost of service application. It is embedded on table 4-23 within the employee future benefit amount which consists of the change in EFB liability, insurance premiums for both the life insurance as well as the health benefits for retired employees. The amount would have much more volatility if London Hydro did not have insurance against the life insurance payouts. See Staff 5b for the table outlining these amounts.

b) Please provide references to the EB-2012-0146 evidence and/or interrogatory expenses that describes the death benefits noted in this application that have a cost of $4.5 million.

LH Response:

In Appendix 4-C of the Cost of Service Application on page 21, it indicates there are 127 retired members with life insurance benefits with an average insurance amount of $37,684 which represents a total of $4,785,868. This data was as of 2011. The updated information is 123 members (including the 2 active employees) for a total of $4,564,960.

# LPMA - 4

The evidence indicates that London Hydro may not be able to renegotiate a similar contract when the current contract expires at the end of December, 2014. What is the current status of contract negotiations?

LH Response:

Contract negotiations start approximately two months before the expiration of the current contract. We expect to receive a renewal package in late October or early November 2014.

# LPMA - 5

Ref: Manager's Summary, page 2

a) Please provide a copy of the Mercer report noted in the evidence.

LH Response:

Please reference Confidential Filing request.

b) London Hydro has provided cost estimates for the voluntary buy-out option ($3.8 million) and for the paid-up life insurance option ($4.3 million). Please provide an estimate of the self-insure option.

LH Response:

The reason that no other amounts were included is that they are much more challenging to estimate as they represent yearly payments that would continue to be paid as premiums that fluctuate based on the age and the number of individuals in the plan. It would also include the benefit payments if any amounts were self-insured.

As an example, the estimate by Mercer indicates that the expected premium payments would exceed $5.1 million over the next eleven years with approximately 51 individuals remaining in the plan.

Again, the self-insurance option is another difficult number to estimate. As discussed in Staff 2-b, the self-insure option would have London Hydro paying the first $10,000 (basically a deductible where London Hydro would pay the first $10,000), then any additional payments would be payable by the insurance company. As there are 123 retirees, the fixed cost would $1,194,229 (there are 9 retirees with less than $10,000 coverage) with the rest of the costs being variable based on the premiums.

Mercer estimated that by self-insuring the first $10,000 London Hydro could reduce the premium cost for 2015 by approximately $75,000 although based on the actuarial estimates, would pay an average of $80,000-$90,000 per year in benefit payments. This would result in approximately the same total cost on a yearly basis depending on the actual benefits paid compared to having the insurance company fully responsible for any payments.

# LPMA - 6

Ref: Manager's Summary, page 1

The evidence indicates that London Hydro renewed the retiree life insurance benefit program for an additional term ending December 31, 2014 in September, 2013. Is this when was London Hydro because aware of the potential for significant cost increases? If not, why did London Hydro become aware of the potential for significant cost increases?

LH Response:

London Hydro became aware of the potential for significant costs increases during our negotiations for the September 2013 contract.

# LPMA - 7

Ref: Manager's Summary

What initiatives or other measures has London Hydro undertaken to reduce or moderate other increases in OM&A as a result of the potential increase in premiums? Please provide a list of all steps taken and the expected reduction in OM&A expenses that are expected to result.

LH Response:

Unfortunately there is no direct correlation between the increased retiree costs of this grandfathered program and any other aspect of the OM&A expenditures. London Hydro believes that it has prudently identified an escalating cost issue and sought expert council on how to reasonably contain it. As the proposed solution may require expenditures which extend beyond current recovery from rates, London Hydro is making this application in order to allow London Hydro to proceed.

That being said, London Hydro is always actively working to either reduce our expenditures or to increase services within the OM&A expenditures.

As an example London Hydro is focusing IT expenditures on website redesign and customer reporting. The project initiative is called “My London Hydro”. This is anticipated to allow for more self-serve options being made available to customers allowing them access to increased and more timely information thereby reducing the requirement for additional customer service staff which directly increases the OM&A costs.