EB-2014-0196

Ontario Energy Board

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

AND IN THE MATTER OF an application by London Hydro Inc. for an accounting order to establish deferral and variance accounts.

SUBMISSIONS OF THE
LONDON PROPERTY MANAGEMENT ASSOCIATION

I. INTRODUCTION

These are the submissions of the London Property Management Association ("LPMA") in an application by London Hydro Inc. ("LHI") for approval from the Ontario Energy Board ("Board") for an accounting order to establish deferral and variance accounts to record transitional adjustments to retiree life insurance benefits.

As described by LHI in the Manager's Summary, it has a grandfathered retiree life insurance benefit program that existed until 1998 at which time it was negotiated out of the collective agreement. The program provides term life insurance coverage for 121 existing retirees and 2 qualified future retirees and is designed to pay death benefits ranging from a flat $2,000 to amounts based on 70% of the active life benefit coverage, with the largest amount being $137,200. The total insured volume is just over $4.5 million.

LHI indicated that it normally goes to market every 5 years to ensure optimal least cost coverage for benefits and that in September, 2013 LHI renewed the retiree life insurance benefit program for an additional term ending December 31, 2014. LHI indicates that the last cost of service rebasing application (EB-2012-0146) include an annual premium expense of $210,000 for this coverage, and that it is paying $285,000 with the recent renewal.

LHI had a forecast prepared by Mercer (Canada) Limited to estimate future costs based on premiums growing by about 10% per year, partially offset with a projection that the number of insured individuals covered declining by an average of 8.5 per year. The forecast indicated that the premiums in 2019 could total $472,971 even though there would only be 72 individuals covered by the plan. Further, the cost by 2024 could be in excess of $650,000.

LHI asked Mercer to review the plan and to provide alternate options for consideration in order to mitigate future costs. A number of options, as outlined in the Manager's Summary, were proposed. LHI indicated that it is interested in pursuing the least cost option, that of a voluntary buy-out. However, LHI states that depending on acceptance of this voluntary buy-out, this option may require LHI to expend a large amount of money in the near future and that this money would be significantly beyond what is currently recovered in LHI's revenue requirement.

LHI is not seeking approval for disposal of any of the settlement amounts that would be placed in the requested deferral accounts. The proposed disposition of this deferral account would be dealt with in a future cost of service proceeding.

LHI indicates that the proposed change to the retiree life insurance benefit program would be of benefit to ratepayers because the escalating premium costs and company assumed risk of doing nothing will be progressively borne by ratepayers. By taking immediate action, LHI believes that it could mitigate this situation.

II. SUBMISSIONS

LPMA supports the efforts of LHI to reduce future costs to ratepayers associated with the retiree life insurance benefit program, but does not support the need for the requested deferral accounts during the IRM period following the 2013 cost of service rebasing that took place in EB-2012-0146.

LPMA notes that the reference to the 2013 cost of $210,000 for these costs was never identified in the EB-2012-0146 evidence or interrogatory responses (LPMA Interrogatory #3). LPMA submits that any increase projected by LHI for future costs cannot be compared to an amount that was not in evidence for 2013. Furthermore, the EB-2012-0146 Settlement Agreement, as attached to the Decision and Order dated April 11, 2013 included an overall agreed upon level of OM&A for the 2013 test year ($32,798,000).

In LPMA Interrogatory #7, LPMA asked for what initiatives or other measures LHI has undertaken to reduce or moderate other increases in OM&A as a result of the potential increase in premiums. LHI indicated in the response that it is always actively working to either reduce their expenditures or to increase services within the OM&A costs and provided an example related to IT expenditures that would reduce the requirement for additional customer service staff.

LHI states in the Manager's Summary that if the voluntary buy-out option is accepted, this may require money that is significantly beyond what is currently recovered in LHI's revenue requirement. However, LPMA submits that LHI has not provided any evidence that this additional cost would cause any significant harm to the utility in its overall return on equity during the IRM term. The forecasted increase in costs could be offset by other factors such as other OM&A cost changes, changes in the cost of debt and changes in capital additions closed to rate base relative to the 2013 forecast included in base rates, not to mention changes in distribution and other revenues.

LPMA submits that under IRM the Board should not approve deferral accounts for cost increases unless they qualify as a Z factor. As indicated in the response to LPMA Interrogatory #2b, LHI states that it does not believe that this cost increase which is the subject of this application qualifies as a Z Factor event for the simple reason that the event is within managements control and direction. LPMA agrees that this event does not qualify as a Z factor event, for the same reason put forward by LHI.

LPMA submits that the Board needs to determine if the request by LHI for a discrete non Z Factor related deferral account is appropriate. Under the IRM regime which LHI is currently under, the distributor is expected to operate within the price cap envelope that results from the base rates in the cost of service rebasing application and the annual price cap escalation to rates. Some costs will go up at a faster rate than others. Some costs may go down or no longer need to be incurred.

LPMA submits that there is no difference between the request of LHI in this application, and for any other discrete cost item that does not qualify as a Z Factor. For example, would the Board entertain an application for a deferral account to record expenditures in excess of the amount forecast for the base year associated with tree trimming, wage increases or severance costs that did not qualify as Z Factor events?

LPMA submits that any cost consequences in the next rebasing year should be dealt with at that time and that no deferral account should be approved by the Board for the years preceding that rebasing. In the meantime, LPMA would expect LHI to continue to do what is necessary to minimize the costs over the life of the program.

If the Board does approve the requested deferral accounts, LPMA submits that the Board should clearly indicate to LHI that there is no guarantee of recovery of any amounts included in the accounts and that the disposition will be an issue in the next LHI cost of service application.

III. CONFIDENTIALITY OF THE MERCER REPORT

LPMA has reviewed the submission of Board Staff related the confidentiality of the Mercer Report and adopt those submissions.

IV. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs for participating in this proceeding. It is submitted that the LPMA has participated responsibly in all aspects of this process in an efficient manner.

All of which is respectfully submitted this 11th day of July, 2014.

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