Cornerstone Hydro Electric Concepts Association Inc.

July 30, 2015

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Re: Consultation on the Regulatory Treatment of Pensions and Other Post-Employment Benefit Costs, Board File Number EB-2015-0040

Dear Ms. Walli:

Attached please find Cornerstone Hydro Electric Concepts Association's (CHEC) comments with respect to the Board's consultation on the regulatory treatment of pensions and other post-employment benefit costs.

As you are aware, CHEC is an association of fifteen (15) local distribution companies (LDC's) that have been working collaboratively since 2000. The comments over the following pages express the views of the CHEC members regarding the Board's consultation process. This submission also addresses the several questions outlined in the letter dated May 14, 2015, and follows the same format (see Attachment A).

We trust these comments and views are beneficial to the Board's review process. CHEC looks forward to continuing to work with the Board in this matter.

Yours truly,

Ken Robertson

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CHEC Members	
Centre Wellington Hydro	COLLUS / PowerStream
Innpower Corporation	Lakefront Utilities
Lakeland Power Distribution	Midland Power Utility
Niagara on the Lake Hydro	Orangeville Hydro
Orillia Power	Ottawa River Power
Renfrew Hydro	Rideau St. Lawrence Distribution
Wasaga Distribution	Wellington North Power
West Coast Huron Energy	

ATTACHMENT A

GENERAL PRINCIPLES:

Question 1 – What principles should the OEB adopt in addressing pension and OPEB issues? Potential principles include: consistency across the gas and electricity sectors; intergenerational equity; financial protection for future ratepayers; ensuring the most efficient level of costs for ratepayers; stable cost levels; pension costs which are comparable as measured by other benchmarks, etc.

The general principle should be whether the applicant is paying more than is just and reasonable when comparing total employee compensation packages. This would suggest the adoption of a “most efficient level of costs for ratepayers” principle.

That being said, pension and Other Post-Employment Benefit (OPEB) costs cannot be looked at in isolation. These costs are only part of an employee’s full remuneration package that may include salary and various other benefits. It is this full remuneration package that must be analyzed as one employer may weigh their remuneration differently than another. This is particularly likely to be the case when comparing private and public sector employers. Thus, focusing solely on pension and OPEB costs will not capture the full story.

Question 2 – Are there other types of costs previously considered by the OEB that provide suitable analogies for the consideration of pension and OPEB issues? (for example: deferred taxes; asset retirement obligations; site restoration costs)

At this time, CHEC does not have a suggestion for a suitable analogy, but will suggest that Deferred PILs is not a suitable analogy to use going forward.

INFORMATION REQUIREMENTS:

Question 3 – Should the applicants be required to compare their pension and OPEB costs to industry norms and/or other benchmarks? (Note: It is the OEB’s expectation that the next phase of the consultation will consider the development of a complete set of new or incremental information that should be filed in applications seeking cost recovery for pensions and OPEBs).

CHEC is supportive of benchmarking pension and OPEB costs to industry norms. There are numerous employee positions that are common within the electrical utility industry. For benchmarking purposes, the OEB could determine which positions are relevant and have utilities report on this basis.

That being said, care must be taken to respect the privacy and confidentiality of these employees. Data for benchmarking purposes should be aggregated or summarized in such a manner so as not to disclose details at the individual level.

Question 4 – What other relevant information should the Board evaluate in order to effectively assess the pension and OPEB costs that a rate-regulated entity is seeking to be included in the rates charged to customers?

The benchmarking approach outlined above will compare business processes and performance metrics to industry norms or best practices. The OEB should consider all utilities on a case-by-case basis, however, those utilities that deviate from the industry norm may warrant a more in-depth analysis with respect to pensions and OPEBs.

As previously noted, the benchmarking process needs to consider the total remuneration package and not just pensions and OPEBs. There will be differences in remuneration practices among employers and analyzing pensions and OPEB's in isolation would provide an incomplete picture with respect to benchmarking.

ACCOUNTING AND RECOVERY IN RATES:

Question 5a – Should the OEB establish accounting and recovery methods for both the electricity and gas sectors?

See Question 5c below.

Question 5b – What criteria should be considered to determine the appropriate approach?

See Question 5c below.

Question 5c – If one method is adopted, what should it be: cash (pay-as-you-go) basis, funding contribution basis, accrual (accounting cost) basis or another method (Please provide details)?

- **Pay-as-you-go" cash payment: is equal to the benefit payment to the plan beneficiaries, as specified by the terms of the plan**
- **Funding contribution: the minimum amount of contribution required to be made by a sponsor of a registered pension plan that is subject to the requirements of pension legislation in Ontario under the Pension Benefits Act, Ontario (PBA), and related rules and regulations**
- **Accounting cost: this is the accrued cost determined by accounting rules (in accordance with a given accounting framework) and recognized and reported in general purpose financial statements (ultimately split between capital expenditures and operating expenditures)**

The most effective method is often the simplest method. The accounting profession has already made considerable investment towards determining an appropriate means of capturing remuneration costs. Therefore, CHEC suggests that the "Accounting Cost" basis is the preferred method for adoption.

Question 5d – Should the method for recovering costs relating to registered pension plans be different from that used for unregistered pension plans and OPEB plans?

No, there is no reason for treating unregistered pension and OPEB plans any differently than registered pension plans.

Question 6a – Should the OEB take into account impacts on financial reporting (US GAAP, ASPE and IFRS), legal, and tax matters?

As most utilities in Ontario have migrated to IFRS accounting standards and have OMERS as a pension provider, financial reporting is likely to be similar for most of the utilities in the province. The OEB should review each utility on a case-by-case basis and only take into account financial reporting impacts if the applicant can demonstrate materiality and sufficiently unique circumstances.

Question 6b – If so, what are the issues that should be considered when determining the appropriate approach?

The only issue that should be considered when determining an appropriate approach is whether or not the impact has a material effect on the measurement of the full remuneration of the employees.

Question 6c – For comparative analysis, how should the OEB address differences that arise from (driven by) the basis of accounting that is used by a rate-regulated utility? For example, the treatment of re-measurements under IFRS is different to their treatment under US GAAP and ASPE.

Although there may be some minor differences between accounting bases, trying to address these differences will only create unnecessary complexity, which will add little value to the equation. It should be proposed that IFRS is the accounting standard that has been adopted by the majority of utilities in Ontario, and it is on that basis that registered pension plans and OPEB's will be addressed.

Question 7a – Would it be appropriate to establish a deferral or variance account(s) in association with the approaches discussed above in numbers 5) and 6) respectively?

No. The objective is to determine whether or not adjustments to an applicant's revenue requirements are required due to employee remuneration policies. Since it is unlikely that adjustments will be necessary, a deferral or variance account is not required.

Question 7b – How should the account(s) operate?

See Question 7a above.

Question 7c – Should interest be applied to the account(s), and if so, why?

See Question 7a above.

Question 7d – How should the transition from the current practice to the new method of recovery be addressed?

- **i. Should the transition be phased-in, applied retrospectively with catch-up adjustments for prior periods, prospectively with no adjustments for prior periods or a combination of any of these methods?**
- **ii. Should a generic approach be used or should the transition be addressed on a case-by-case basis?**

Since a deferral or variance account is not required, there should be no need to transition to a new method of recovery.

Question 8a – Would it be appropriate to establish some form of segregated fund or similar set-aside mechanism for amounts which are collected from ratepayers before they are paid out?

This may be a desirable option to have for certain OPEB costs, however, a properly funded pension plan should not have this issue. A set-aside mechanism for pensions should not be required if the recovered amounts are appropriately figured into a utilities rate base.

Question 8b – What tax, legal, accounting or other issues arise?

Since a segregated fund is not required, there should be no related issues

Question 8c – How should the transition to the new practice be addressed?

- **i. Should the transition be phased-in, applied retrospectively with catch-up adjustments for amounts collected from ratepayers to date but not yet paid out, prospectively with no adjustments for prior periods or a combination of any of these methods?**
- **ii. Should a generic approach be used or should the transition be addressed on a case-by-case basis?**

Again, if there is no need to establish a segregated fund or similar set-aside mechanism, there is no need to transition to a new practice.

Question 9 – What information should the utilities report and how frequently should it be reported?

The benchmarking report on pension and OPEB costs should be reported annually, which in turn could be supported by an actuarial report every three (3) years or when filing a Cost of Service rate application.

Regulating Pensions and OPEBs through the filing and regulatory consideration of a “Plan” that is similar in form and function to the Distribution System Plan will provide the OEB with the information necessary to monitor and address the types of issues flagged in the Leech Report and that are of concern to the Government. The methodology suggested above will allow the OEB to identify issues of concern within the next 3 years. Thereafter, the OEB would receive the updated Plans from utilities at 5 year intervals.