July 15, 2016

via RESS and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON
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Dear Ms. Walli,

Re: Coalition of Large Distributors – EB-2015-0040 – Consultation on the Regulatory Treatment of Pensions and Other Post-Employment Benefit Costs

The Ontario Energy Board ("OEB") began a consultation in May 2015 on rate-regulated utility pensions and other post-employment benefits ("OPEB"s) in the electricity and natural gas sectors. On May 19th, 2016, the OEB notified stakeholders that it will convene a stakeholder meeting beginning July 19, 2016 to provide a forum for discussion of the issues in this consultation. In that same correspondence, the OEB invited stakeholders to submit presentations for the upcoming forum on July 19th, 2016.

The Coalition of Large Distributors ("CLD")[1] wishes to submit their presentation related to the above noted matter.

On behalf of the CLD, all correspondence related to this consultation should be addressed to:

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Sincerely,

[Original Signed on behalf of the CLD by]

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs

[1] The CLD is comprised of the following electricity Local Distribution Companies ("LDC"): Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc.

Submitted on behalf of CLD:

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

Presented to the Ontario Energy Board
By Aida Cipolla, CPA, CA
Interim Controller, Toronto Hydro Electric System Inc.
On Behalf of
The Coalition of Large Distributors ("CLD")

July 20, 2016

About the CLD

- Enersource Hydro Mississauga Inc.,
- Horizon Utilities Corporation,
- Hydro Ottawa Limited,
- PowerStream Inc.,
- Toronto Hydro-Electric System Limited, and
- Veridian Connections Inc.

- All are part of the OMERS pension plan
- All have converted to IFRS
- Most have rebased using MIFRS as the basis of accounting for regulatory purposes

Consultation Objectives – CLD Perspective

OEB Objectives

1. Develop standard principles to guide the OEB's review of P&OPEB costs in the future;

2. Establish specific information requirements for applications that will be incremental to current filing requirements; and

3. Determine whether appropriate regulatory mechanisms for cost recovery can be developed and applied consistently across the gas and electricity sector for rate-regulated entities.

Consultation Objectives – CLD Perspective

Key Messages

1. Accrual accounting for P&OPEBs is appropriate for ratemaking purposes

2. A case-by-case approach for filing requirements <u>and</u> set-aside mechanisms is most appropriate

3. If the OEB were to enact a mandatory set-aside mechanism, a Tracking Account is the only appropriate approach

Objective #1 – Standard Principles

Standard principles favour:

1. Accrual accounting for pension and OPEB costs
2. A case-by-case approach for reporting, set-aside mechanisms

Intergenerational Equity/Fairness

- Reflection of true cost of doing business
- Costs of those rendering services paid by those who benefit

Proportionality

- Proportionality in effort to administer
- P&OPEB costs are a small portion of total costs

Cost Stability

- Accrual: more predictable
- Cash: OPEB costs become sensitive to health status of retirees in a given year

Principles of Rate-setting, Accounting

- Apply basic principles of rate-setting, generally accounting principles and standards
- Consistent with Financial Reporting

Cost Efficiency

- Over long run, cash = accrual
- Moving to cash accounting would provide short-term rate relief at the expense of burdening future generations of ratepayers
- Administrative costs represent a net burden on ratepayers.

Objective #2 – Filing Requirements

- Additional filing requirements are unnecessary
  - Extensive reporting already exists
  - Current filing requirements include actuarial information
  - Details of benefit and pension plans provided in applications
  - Additional materials will increase cost to ratepayers

- Mandatory P&OPEB Benchmarking is unnecessary
  - Disproportionate effort required
  - OEB moving towards outcome-based regulation (e.g., RRFE)

- In rare and special circumstances additional information may be appropriate on a case-by-case basis
  - Complex plans
  - Significant non-routine changes

Objective #3 – Cross-Sector Requirements

A case-by-case approach is appropriate because of diversity in utilities':

- Pension and OPEBs frameworks
- Collective bargaining outcomes
- Financial Reporting Standards

Accrual accounting is appropriate for Pension & OPEBs

- OMERS accounted <u>and</u> paid for on accrual basis
  - Mandating cash accounting for pensions could have significant cash flow impacts
- Accrual method for OPEBs is appropriate because it:
  - Avoids unnecessary administrative costs
  - Adheres to principles of intergenerational equity and cost stability
  - Has proven to be effective over time

Objective #3 – Set-Aside Mechanisms

Key Consideration

"In the fullness of time, the cumulative cash costs… is generally expected to equal [the] cumulative accrual accounting costs." - KMPG, pg. 2

A mandatory set-aside mechanism should not be imposed:

- Value-for-money proposition unclear:
  - Set-up costs, Legal fees
  - Ongoing fund management fees, taxes
  - Exposure to market risk

Counter to KPMG options:
(a) Internally segregated accounts
(b) Separate legal entity

- Policy symmetry:
  - Does not address circumstances where cash accounting exceeds accrual amounts.

Counter to KPMG option:
(c) Excess recoveries reduce ratebase

Objective #3 – Set-Aside Mechanisms

Key Consideration

"In the fullness of time, the cumulative cash costs… is generally expected to equal [the] cumulative accrual accounting costs." - KMPG, pg. 2

Designed correctly, a Tracking Account* is the only appropriate set-aside mechanism included in the KPMG Report, however:

***: KMPG Option "D"**

- Risk of administrative burden:
  - A share of P&OPEBs are capitalized
  - Small from a revenue requirement perspective, but effort required to administer if captured in the tracking account

- Provided the Tracking Account captured OM&A component only, it could be appropriate if adopted on a case-by-case basis:
  - Tracking Account provides transparency at a reasonable administrative cost

Transition to New Regulatory Mechanism

Transitional Options

- Retrospective, prospective, phased-in
- Case-by-case approach is appropriate given utility diversity

CLD notes:

- Different circumstances for different LDCs requires a case by case approach
- There may be considerable effort and challenges in identifying what has been funded in rates over the long timeframe that current liabilities have arisen

Summary of CLD's Position

- Gas and Electricity sectors are different
- Filing requirements are adequate
- Accrual accounting is appropriate
- A mandatory set-aside mechanism is not necessary
- If the Board deems it necessary to adopt one of the set aside mechanisms proposed in the KPMG report, option "D" – Accrual accounting with a regulatory account to track variances that would be monitored by the OEB, could be appropriate
- Transitional issues
- Need for further consultation and submissions regarding resulting Staff Report to Board