September 21, 2016

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 No. EB-2015-0040

Dear Ms. Walli:

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.

Pursuant to the OEB's letter dated August 10, 2016, this letter constitutes Cornerstone Hydro Electric Concepts Association's (CHEC) additional comments (as per Attachment A) with respect to the Board's invitation to comment on the "Regulatory Treatment of Pensions and Other Post-Employment Benefits Costs".

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

Yours truly,

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ATTACHMENT A

CHEC's comments for the July 19, 2016 stakeholder session regarding the regulatory treatment of pensions and other post-employment benefits are as follows:

As the Board is aware, most utilities in Ontario currently operate under IFRS accounting standards and have the "Ontario Municipal Employees' Retirement System" (OMERS) as their pension provider. As a result, the regulatory treatment for pensions and Other Post-Employment Benefits (OPEBs) should be relatively straightforward and consistent across Ontario utilities.

With respect to pensions, Section 2.3.2.2 of the KPMG report states that although OMERS is a Direct Benefit (DB) plan, it is typically accounted for as a Direct Contribution (DC) plan because it is considered to be a multi-employer plan that cannot attribute specific funds to an individual participating employer. Furthermore, Note 1 on page 25 of the KPMG report states that under this scenario (accounting for a DC plan), "there is no difference between the funding contribution method and the accounting cost method – both lead to the same result". Since the KPMG report also indicates there are complexities with the 'pay-as-you-go" method, and there is essentially no difference between the Funding and Accounting Cost methodologies, remaining with the current methodology (Accounting Cost), appears to be the clearest and simplest approach for pension costs.

With respect to OPEBs, the KPMG report also states that "The goal of achieving greater consistency should not over-ride the OEB's statutory mandate to set 'just and reasonable' rates. In certain cases, a "one-size fits all" approach is simply not desirable or justifiable. For this reason, the principles and requirements should offer flexibility in some areas". This suggests that a clear and simple approach (Accounting Cost) would be more appropriate for those utilities that deal with minimal OPEB needs, than for those utilities that have more complex OPEB requirements.

In both instances outlined above, the "Accounting Cost" method, which is the methodology suggested by the KPMG report and supported by CHEC in its July 30, 2015 submission, remains the simplest and the preferred methodology. CHEC continues to support the Accounting Cost method as the standard method for pensions and OPEBs. That said, other methodologies may be more suitable for those few utilities that are not using IFRS accounting standards or have chosen not to use OMERs as its pension provider. Deviation from the accounting cost methodology should be reviewed by the OEB on a case-by-case basis, and only be permitted if a utility can demonstrate material and sufficiently unique circumstances.

CHEC has no comment on the modified funding contribution method at this time. The modified funding method is best suited to registered pension plans accounted for as DB plans, which is not applicable to the CHEC group of utilities.

With respect to the alternatives for Set-Aside Mechanisms, CHEC is of the opinion that a properly funded pension plan should not require a set-aside mechanism provided the recovered amounts are appropriately included into a utilities rate base. That said, if a set-aside mechanism is deemed to be required, the use of a separate regulatory account is the preferred mechanism over the excess recoveries to reduce rate-base methodology. The KPMG report also supports this approach. The two mechanisms are similar in nature but:

- Using a regulatory account, rate-base is maintained;
- Using the reduce rate-base methodology, rate-base is reduced, which could significantly reduce a utility's return on rate-base and potentially affect a utility's investment and credit risk profile.

CHEC's preference for the use of a separate regulatory account is in-line with KPMG's recommendations cited in their report.

All of which is respectfully submitted.