September 22, 2016

Kristen Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

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

Introduction:

On May 14, 2015, the Ontario Energy Board (OEB) announced its intention to review the regulatory treatment of pensions and other post-employment benefits (OPEB) costs in the electricity and natural gas sectors. For the initial round of submissions, interested parties were invited to provide written comments on a number of issues included in the Board's May 14, 2015, letter. The OEB also retained KPMG to provide technical support and KPMG prepared a report which was provided to stakeholders on May 19, 2016. The report was the focus of the OEB convened stakeholder forum which took place on July 19 and 20, 2016. In its letter of June 23, 2016, the OEB confirmed that following the forum, stakeholders could file written submissions on or before September 22, 2016. On August 10, 2016 the Board issued a letter giving direction regarding the issues to be included in the submission.

The following are the submissions of the Consumers Council of Canada (Council) related to the directions provided by the Board in its August 10, 2016, letter.

Submissions:

The Council notes that there was a discussion at the stakeholder forum regarding a staged approach to the remaining portions of this consultation. The Council fully supports proceeding with a staged approach as discussed at the forum. This would allow for parties to review the most recent submissions of other parties and provide further comments regarding those submissions.

The Council submits that it is important to consider that this consultation was initiated due to an issue involving pensions being accounted for in rate base in an Ontario Power Generation Inc. (OPG) rate proceeding, not due to a an overall request, by any party, to review pension methodologies. Therefore, it is not surprising that, as set out in KPMG's report and the numerous presentations at the stakeholder forum, that it is not necessarily appropriate that "one approach fits all".

KPMG acknowledged that the majority of Ontario electricity utilities (the smaller ones) are part of multi-employer pension plans such as OMERS and as such there is no suggestion of change to regulatory treatments through this consultation. This negates any possibility of "consistency across the whole energy sector".

Principles

The Council agrees that the OEB should adopt, for the purposes of assessing pension and OPEB costs in rate applications, the following principles set out in the KPMG report:

- Fairness within the ratepayer population over time (intergenerational equity); and
- Minimizing the regulatory burden. That is, the costs to collect the information or change a utility's method of assessing pension and OPEB compared with the expected outcomes should be closely assessed.

KPMG Recommendations

From the Council's perspective KPMG did have several good recommendations for changes as listed below. These recommendations should be fully analyzed, as part of this consultation, by the appropriate utilities and brought back for review by the larger stakeholder group so that all involved can see whether applying these suggestions meets the second principle of minimizing regulatory burden.

1. **Modified Funding contributions (MFC)**

This methodology has good potential for implementation as it includes only the minimum amount of contributions required to be made by the sponsor of a registered pension plan as required by legislation. Also, only an employer's normal cost contribution and going concern special payments using the 15-year amortization period are included in the current period's rates. Any other special payments that an employer chooses to make would be recorded in separate deferral accounts, and be recovered in the rates in a future period as determined by the OEB.

Advantages of this approach include:

- The amount calculated under the MFC method would be less volatile than the amount calculated using the (traditional) funding contribution method;
- Transparency and greater objectivity in setting assumptions;
- Easier to understand the inclusion in rates of cash costs; and
- Amounts included in rates do not depend on the accounting framework.

This approach would bring consistency across some of the industry. The Council sees value in the utilities analyzing this approach and comparing the efficiencies and cost-effectiveness relative to what they do now.

2. **Accrual Accounting Cost Values for OPEB Plans**

OPEB Plans should use accrual accounting cost values. These cost values should be amortized and included in rates based on the expected average remaining service life of the members of the OPEB plan. This works well as the costs are included in the period that service is provided by the employees, avoiding intergenerational equity issues. The only addition to this could be a new "set-aside mechanism" as described in the KPMG report.

3. Set-aside Mechanism - Excess Recoveries reduce Rate-base

This alternative requires that excess recoveries be tracked in a separate regulatory account. This will reduce rate-base. This option has the distinct advantage in that it does not involve significant additional costs to set up, it has no identifiable tax consequences and it provides customers with a specified, predictable and regulated return on any funding that they provide a regulated utility for costs that will be settled well into the future. By tracking the excess recoveries in a separate regulatory account that is used to reduce rate-base, the customers (and not the shareholders) benefit from any funding that they provide towards a regulated utility's operating assets. The downside is that this option could change a regulated utility's investment and credit risk profile; which could potentially reduce the utility's credit rating and/or borrowing capacity (or increase its borrowing rates).

Summary:

As stated above these potential changes, if found to be appropriate when tested by the individual utilities, could provide some consistency and a better accountability regarding Pension and OPEB costs.

If you require any further information or clarification do not hesitate to contact us.

Yours truly,

Ruth Greey

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