June 22, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

via RESS and Courier

Dear Ms. Walli:

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

On May 18, 2017, the Ontario Energy Board ("OEB") issued a report *"Regulatory Treatment of Pension and Other Post-employment Benefits (OPEB) Costs"* (the "Report") for comment on implementation matters related to OPEBs. The Report is the conclusion of the consultation process across both the electricity and natural gas sectors, labour unions of energy sector employees and representatives of energy consumers. The regulatory treatment of pension and OPEB costs will be based on established regulatory principles and supported by best practices. The objective of setting just and reasonable rates will continue to be the primary driver of the regulatory treatment of pension and OPEB costs. The OEB has indicated that the originally anticipated second phase of the consultation will not be required. However, the OEB seeks stakeholder comments on a limited scope of items.

This is the submission of the Coalition of Large Distributors ("CLD"). The CLD consists of Alectra Utilities Corporation, Hydro Ottawa Limited, Toronto Hydro-Electric System Limited ("THESL"), and Veridian Connections Inc.

Consultation Overview

The OEB has confirmed in the Report that it has established the use of the accrual accounting method as the default method on which to set rates for pension and OPEB amounts in Cost of Service applications, unless that method does not result in just and reasonable rates in the circumstances of any given utility.

Through the Report, the OEB has also established a variance account to track the difference between the forecast accrual amount in rates and actual cash payments made, with asymmetric carrying charges in favour of ratepayers applied to the differential (i.e. the utility will not be compensated for under-recoveries).

This Report does not address the magnitude or level of pension and OPEB amounts. The longer-term intention of the OEB is to use benchmarking to assess whether costs are reasonable. Benchmarking will be performed on the basis of the figures in utility financial statements, not the amount that is collected in rates in a given year. The OEB intends to compare costs at a higher level than the pension and OPEB amounts.

At this time, the OEB seeks stakeholder comments regarding the following implementation matters:

- Effective date of the new variance tracking account;
- Mechanics of the new variance tracking account;
- The manner in which carrying charges are applied to balances tracked in previously established variance accounts;
- The requirement to track only the gross accrual cost as opposed to identifying amounts expensed vs. capitalized for the calculation of carrying charges;
- The timing of the OEB's consideration of a transition to the accrual method for utilities currently on cash; and
- The timing of the disposition of both the new and previously established variance accounts.

The CLD's submission focuses on OPEB costs and will not address issues related to pension costs. As the OEB is aware, all CLD members are members of the Ontario Municipal Employees Retirement System ("OMERS").

Effective date of the new variance tracking account

The OEB indicated that the control variance account (with appropriate sub-accounts) will be effective from the 1st of the month following issuance of this Report, unless otherwise ordered by the OEB. LDCs will be required to record the difference between the forecast accrual amounts recovered in rates and the actual cash payments for OPEBs in the primary sub-account, on a go-forward basis from June 1, 2017.

Members of the CLD have a general concern with the timeline of the establishment of the new variance account - effective prior to comments due to the OEB. The CLD recommends that the establishment of the variance account be effective January 1, 2018. This aligns to the start of the financial calendar and simplifies internal/external reporting.

Mechanics of the new variance tracking account

The primary account will accrue carrying charges to be returned to ratepayers when the cumulative forecast accrual amounts recovered in rates exceed the actual cash payments (i.e. the cumulative opening monthly balance of the account is in a credit position). The approved accrual amount recovered in rates will remain the same and is not expected to change or escalate during an IRM or Custom IR ("CIR") rate plan term, except in cases where within the CIR rate plan term, updated forecasts for subsequent years were approved

The CLD agrees with the Board's proposal on the mechanics of the new variance tracking account.

The application of carrying charges is asymmetrical. A control variance account (contra account) "Sub-account 1522 - P&OPEB Forecast Accrual versus Actual Cash Payment Differential Contra Account" will be established to offset the primary sub-account. This contra account will not accrue carrying charges. Disposition can only result in a credit refund of carrying charges to ratepayers.

Members of the CLD find the rationale for an asymmetric interest rate is not compelling. The only reason cited is precedent of doing so from time to time for capital cost variances and earnings sharing mechanisms. There is an important difference with this account compared to those others: over time the cash and accrual methods will balance themselves out. This is not so for the examples cited. Therefore, the CLD proposes the symmetrical application of carrying charges to balances tracked in this newly established variance account.

The manner in which carrying charges are applied to balances tracked in previously established variance accounts

The CLD takes no position on this implementation matter.

The requirement to track only the gross accrual cost as opposed to identifying amounts expensed versus capitalized for the calculation of carrying charges

The CLD supports the requirement to track only the gross accrual cost as determined by an actuarial valuation for the purpose of establishing the forecast accrual reference amount. If a utility capitalizes a material portion of its total pension and OPEB accrual costs, and there is sufficient incremental value to warrant the added complexity of tracking amounts that are capitalized separately from those that are expensed, the utility may propose an enhanced methodology for determining the reference amount. For these utilities, the CLD supports the OEB's allowance of a modified approach to account for the capitalized portion in a fashion that does not add a further level of complexity to the tracking.

The timing of the OEB's consideration of a transition to the accrual method for utilities currently on cash

The CLD supports having utilities currently using the cash method transition back to the accrual method at the time of their next rebasing application. THESL is the only CLD member that is impacted by this change.

The timing of the disposition of both the new and previously established variance accounts

For some utilities, the OEB approved the recovery of their pension and OPEB costs on a cash basis as an interim measure pending the outcome of this consultation, and directed them to establish a variance account(s) to capture the difference between the cash and accrual methods in order to keep the period open for final adjustments once the outcome of the consultation is known. These utilities are required to continue to record amounts into this account(s) until the effective date of the utility's next rebasing application.

The CLD supports the proposed timing of the disposition of both the new and previously established variance accounts.

Additional Comments

The Report suggests that accrual accounting will be the default option for utilities going forward. The CLD interprets the Report to say that the OEB expects all utilities (including those operating on a cash basis) to apply for an accrual accounting treatment of OPEBs at the time of their next rebasing application, and that it will be accepted by the OEB unless overwhelming evidence demonstrates why a different treatment is required.

Utilities would benefit from further certainty in this regard given the relatively high transition costs of shifting back and forth between accounting treatments and the challenges it creates of maintaining data comparability year-over-year.

In relation to the following comment on established actuarial gains and losses deferral accounts, *"As at the date of this Report, utilities that have approved deferral accounts have not requested disposition"*, the CLD observes that in the case of Hydro Ottawa, its actuarial gains and losses deferral accounts as at December 31, 2014 was cleared as part of its 2016 to 2020 CIR rate application.

The Report contains the following comment on established actuarial gains and losses deferral accounts, *"In some cases, gains and losses may offset each other over time, and no material amount may remain for disposition. In these cases, the account may act only as a tracking account"*, the CLD do not consider this to be only a tracking account and expects to be able to request disposition of this account in the future.

If you have any questions with respect to the above, please contact the undersigned.

Sincerely,

Original signed by Indy J. Butany-DeSouza

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

Indy J. Butany-DeSouza	Andrew Sasso
Alectra Utilities Corporation	Toronto Hydro-Electric System Limited
(905) 821-5727	(416) 542-7834
indy.butany@alectrautilities.com	asasso@torontohydro.com

Gregory Van Dusen
Hydro Ottawa Limited
(613) 738-5499 x7472
GregoryVanDusen@hydroottawa.com

George Armstrong
Veridian Connections Inc.
(905) 427-9870 x2202
garmstrong@veridian.on.ca