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BY COURIER

June 22, 2017

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON  
M4P 1E4

Dear Ms. Walli,

**EB-2015-0040 – OEB Consultation on the Regulatory Treatment of Pensions and Other Post-Employment Benefit Costs – Hydro One Networks' Inc. Comments on Board Report**

Hydro One Networks Inc. (“Hydro One”) is pleased to offer its comments on the report entitled “Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs” (the “Report”) that was prepared by the Board.

Below are Hydro One’s comments with respect to each of the implementation matters for which the Board requested comments.

**Effective Date of the new Variance Tracking Account**

Hydro One recommends that the effective date of the new variance tracking account should be January 1, 2018, assuming that the final report is issued in 2017. Hydro One believes that an effective date at the beginning of the year allows for a more accurate estimate of the amount to be recovered in rates, than a partial year estimate.

**Mechanics of the New Variance Tracking Account**

Hydro One proposes that the variance account track the difference between the accrual amounts included in rates and the actual cash expense, to eliminate any exposure to forecast vs. actual variances.

Hydro One would also like to comment on the asymmetrical aspect of the carrying charges. Account balances could accumulate quickly and only a significant change in the plan and the demographic of the utility’s workforce would cause the balance to reverse. However, in case of a

prolonged period of under-recovery by a utility, the asymmetrical nature of the account does not compensate the utility and therefore Hydro One submits that the account should be symmetrical. Hydro One would also like some clarification on the statement that utilities may be compensated for under-recoveries in certain circumstances.

**The Manner in Which Carrying Charges are Applied to Balances Tracked in Previously Established Variance Accounts**

Hydro One has no comments on this issue.

**The Requirement to Track Only the Gross Accrual Cost as Opposed to Identifying Amounts Expensed vs. Capitalized**

Hydro One supports the proposal that utilities should have the option of either tracking only the gross accrual cost or proposing a modified tracking approach (that identifies amounts that are expensed vs capitalized). Should a utility propose the use of a modified approach, it will have to demonstrate why the modified approach is appropriate.

**The Timing of the OEB's Consideration of a Transition to the Accrual Method for Utilities Currently on Cash**

For utilities that are currently on the cash method, a transition to the accrual method encompasses administrative burden and complex accounting issues. In addition, the utility will also need to address the recovery of the regulatory asset currently recorded that represents the cumulative difference between the accrual and cash basis from inception. This recovery will have a rate impact that should be considered by the Board when determining the timing of a transition to the accrual basis.

As the Report provides the opportunity for utilities on the cash basis to demonstrate that remaining on the cash basis is necessary to set just and reasonable rates, consideration should be given to allow sufficient time for utilities to assess and address this option.

In considering whether the cash or accrual method is most beneficial to ratepayers, it is important to note that although one method may be better from a ratepayer perspective at a point in time; this can fluctuate significantly over time. An entity could have a funding holiday over a period of years where the cash basis results in significantly lower rates, but this could change in other years. Hydro One proposes that the Board consider that switching back and forth between methods would be very cumbersome and that a company's position at the time of implementation may not be predictive of its position going forward. In addition, as mentioned previously, the recovery of the regulatory asset associated with the cash method would occur over a period of 10 to 15 years. The rate impact of this should be considered in the decision between the accrual and cash methods.

Hydro One further proposes that once a method is determined for a particular utility, the methodology should be remain in place on an ongoing basis. To change back and forth as one method becomes preferable over the other would create too much complexity and uncertainty and would contradict the Board's goal of standardizing the approach. Furthermore, changing between methods could also create transitional assets or liabilities that would need to be

addressed – creating significant administrative burden for both the utility and the Board, as well as increasing costs and potentially rate impacts related to the change in regulatory treatment (and as a consequence accounting treatment) of pension and OPEB costs.

***The Timing of the Disposition of Both the New and Previously Established Variance Accounts***

Hydro One supports the disposition of the variance accounts on a regular cycle. Disposition of the variance accounts should be brought forward as part of future rate applications and treated in the same manner as all other deferral and variance accounts.

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ORIGINAL SIGNED BY JODY MCEACHRAN ON BEHALF OF ODED HUBERT

Oded Hubert