

**OTHER VARIANCE ACCOUNTS – PENSIONS AND OTHER
POST-EMPLOYMENT BENEFITS (OPEBS)**

On May 18, 2017, the Board issued its Report on the Regulatory Treatment of Pension and Other Post-Employment Benefit (OPEBs) (the “Report”), Ontario Energy Board (“Board”) File No.: EB-2015-0040. The Board’s Report establishes or states that:

- the longer term intention of the OEB is to use benchmarking, comparing a utility’s proposed costs to those of similar businesses, to assess whether costs are reasonable;
- the use of the accrual accounting method as the default method on which to set rates for pension and OPEB amounts in cost-based applications;
- a variance account is to be established effective the month after the report is released, unless otherwise ordered by the OEB, to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made;
- carrying charges on the new variance account will be assessed on the monthly opening account balance at the OEB’s prescribed Construction Work In Progress (CWIP) rate, which is currently set by the Board at 2.81%;
- utilities will not be compensated for under-recoveries unless the financial viability of the utility would be compromised by such an arrangement;
- where pension and OPEB amounts collected in rates are higher than payments made by the utility, current ratepayers are in effect lending money to the utility to fund future obligations and the carrying charge will be applied to the cumulative balance in favour of ratepayers;
- the OEB expects that utilities will not seek further recovery from ratepayers if their cash requirements exceed their accrual expense in the future; and
- the OEB is of the view that the IESO is a rate regulated entity and the extent that the mechanism established in the Report (or an alternative mechanism that meets the spirit of this policy) should apply to the IESO will be reviewed and determined in the IESO’s next fees case.

On September 22, 2016, the IESO filed its written submission with the Board on its consultation on the Regulatory Treatment of Pensions and OPEBs. The key points of the IESO’s letter, which remain relevant, were that:

- 1 • the IESO is a public sector entity;
- 2 • the IESO does not pay income taxes or Payments in Lieu of taxes (PILS);
- 3 • the IESO's financial statements are required to be prepared in accordance with
- 4 Canadian Public Sector Accounting Standards which require use of the accrual basis of
- 5 accounting for financial reporting;
- 6 • the *Electricity Act, 1998* establishes that the business of the IESO shall be carried on
- 7 without the purpose of gain and any profits shall be used by the IESO for the purpose
- 8 of carrying out its objects;
- 9 • the IESO is a not-for-profit entity without share capital and, as far as the IESO is aware,
- 10 it is the only entity licenced by the Board structured in this manner and the only
- 11 regulated entity that is required by legislation to be a not-for-profit entity; and
- 12 • any difference between OPEB expenses and OPEB benefit payments in a given year is
- 13 applied to the IESO's debt with any resulting decrease in interest charges benefitting
- 14 Ontario's ratepayers.

15 As indicated in the Board's Report, the IESO is seeking the Board's direction on the extent
16 that the mechanism established in the Report or an alternative mechanism¹ should apply to
17 the IESO.

18 The IESO uses Canadian Public Sector Accounting Standards and, as such, uses accrual
19 accounting for its financial reporting, including for pensions and OPEB expenses. As
20 specified in the Report, the IESO has established a variance account to track the difference
21 between the forecasted accrual amount and actual cash to allow for future benchmarking of
22 these costs.

23 As stated in the IESO's September 2016 submission, any difference between OPEB expenses
24 and OPEB benefit payments in a given year has historically been an over-collection and has
25 subsequently been applied to the IESO's debt with any resulting decrease in interest

¹ As stated at page 9 of the Report: The OEB is of the view that the IESO is a rate regulated entity and the extent that the mechanism established in this Report (or an alternative mechanism that meets the spirit of this policy) should apply to the IESO will be reviewed and determined in the IESO's next fees case.

1 charges benefitting Ontario's ratepayers. If the IESO is required to track interest on any
2 over-collection at the CWIP rate with ultimate disposition in favour of the ratepayer, there
3 would ultimately be no additional benefit for the ratepayer. Any interest charges on the
4 over-collection paid to the IESO's ratepayers will need to be recovered from those same
5 ratepayers that the interest charges would be paid to as the only means the IESO has to
6 recover the cost of its operations is through its fees. If the Board is supportive of the IESO's
7 proposed approach, to continue to apply any over-collection between OPEB expenses and
8 OPEB benefit payments in a given year to the IESO's debt, the IESO submits that the
9 "Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Carrying
10 Charges" sub-account, as specified in the Board's Report, is not required.

11 The IESO believes it is meeting the requirements of the Board's policy as contained in the
12 Report as it currently and will continue to use the accrual method of accounting and has
13 established a variance account to track the difference between the forecasted accrual
14 amount and actual cash payments made as of June 1st.

15 The IESO seeks to have an alternative mechanism than recommended in the report to deal
16 with its associated interest charges. The IESO seeks the Board's approval to continue to
17 apply any over-collection between OPEB expenses and OPEB benefit payments in a given
18 year to the IESO's debt, with any resulting decrease in interest charges benefitting
19 Ontario's ratepayers. The IESO believes that this alternative mechanism meets the spirit of
20 the Report while acknowledging that the IESO is a not-for-profit corporation.

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