BOMA INTERROGATORY 44

Issue 6.0

INTERROGATORY

Reference: Exhibit B, Tab 4, Schedule 1, p2; Issue 6.0

a) Please confirm that if it followed the Board decision in EB-2015-0040, it would clear each year, in favour of ratepayers, any surplus in the account plus interest accruing at the Board-approved rate.

b) Please provide a copy of the text of the variance account that the IESO has established to comply with EB-2015-0040 – Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Employment Benefits (OPEB) Costs (the "Report").

c) Please confirm that if IESO were to follow the Board's default option in its Report, the IESO would clear, on an annual basis, any balance in the variance account as at December 31st of the previous year, in favour of ratepayers, that is, any excess of forecast pension and OPEB payments on an accrued basis, over actual IESO's cash contributions in that year for pension and OPEBs, and it would credit any balance in favour of shareholders against its next year's revenue requirement submission.

d) Having established the deferral account on June 1, 2017:

(i) What is the current balance in the account, and how does that balance arise?

(ii) If the balance is a credit to ratepayers at year end, does the IESO propose to credit the balance to ratepayers, as part of its 2018 revenue requirement application? If not, what treatment does it propose for the principal in the variance account?

(iii) Does IESO propose different treatment for interest accruing on the balance of the variance account? What is that treatment? If so, why should the treatment accorded interest be different than the treatment accorded the amount of the variance itself? The IESO proposes to use any surplus, both principal and interest, in the Pension/Benefits deferral account to reduce its debt. What debt is the IESO referring to? Notes, 7(a) and (b) of the 2016 Financial Statement (Exhibit A, Tab 3, Schedule 1, p44) shows a term loan of $90 million from the Ontario Energy Finance Corporation ("OEFC"), which was repayable in full April 30, 2017. Was that repaid, renewed or refinanced in some other manner? It also shows a credit facility from OEFC of $95 million, also terminated on April 30, 2017. What are the current debts to OEFC or others, and which "debt" do they propose to reduce?

(iv) What is the current interest rate on the IESO's debt? Who now holds the IESO's debt? What is the amount, and what are the repayment arrangements? What has been the average amount of debt outstanding over the last five years?

(v) Does the IESO agree that establishing a variance account, as suggested by the Board, with any surplus paid to ratepayers, provides for greater transparency of the impact of pension and OPEB to benefit of the Board and ratepayers? Please discuss.

(vi) Please provide the variance between the forecast pension and OPEB accruals and each actual cash contributions in each of the last five years, ending in the year 2016, and show, by reference to previous financial statements, the actual debt reduction that occurred.

(vii) What would have been the impact on the IESO's operating expenses for each of the last three years had the IESO followed the Board's proposed approach in EB-2015-0040?

(viii) What is the relevance of the fact that the IESO is a not-for-profit corporation to whether it should have a different method than that proposed by the Board for the operation of the variance account and disposition of interest charges? Please discuss fully.

(ix) What percentage, and how, does the IESO propose to capitalize any of its pension and OEB costs in 2017? Did it do so in 2016? If so, where does it show the arrangement on its financial statements?

RESPONSE

a) If the IESO followed the Board decision in EB-2015-0040, the IESO would report the balance in the surplus account to the OEB as requested and pay interest to rate payers on any surplus balance in the account.

b) The IESO has established the variance account based on the approval in the May 18, 2017 Board Report on the Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs in EB-2015-0040 as of June 1, 2017. There is no “text” that can be provided.

c) The OEB's default position is for the use of accrual accounting method to set rates for pension and OPEB, to establish a variance account to record the difference between the forecasted accrual amounts and the actual cash payments, and to apply a carrying charge to the variance amount using a rate of 2.81%. As per the OEB report on page 11, "The variance account will act as a tracking account and only carrying charges applied to the account will be subject to disposition."

The IESO has always used the accrual accounting method to set rates for pension and OPEB. Effective June 1, 2017, the IESO has established a variance account to record the difference between the forecasted accrual amounts and the actual cash payments for pension and OPEB. To date, the IESO has not applied a carrying charge to the variance amount as the IESO is awaiting review of our proposed alternative mechanism by the OEB (please refer to page 1 of Exhibit B-4-1).

d)

(i) Excluding any impacts for capitalized costs, smart metering expenses and customer education & market enforcement expenses, the balance in the variance account as of June 30, 2017 is -$219,049.

(ii) No, as per the IESO's proposed alternative mechanism, the balance will not be a credit to rate payers at year end. However, the principal will be reported to the OEB as requested.

(iii) Please refer to Exhibit B-4-1. The IESO is awaiting review of our proposed alternative mechanism by the OEB.

(iv) The IESO's current (August 2017) outstanding and average weighted cost of debt is $120 million and 1.76% per annum respectively. The IESO's current lender for all debt is the Ontario Electricity Financial Corporation ("OEFC"). The OEFC has provided the IESO with two separate current debt facilities as follows: a) $120 million note payable with a fixed 1.76% per annum interest rate due June 2020, and b) monthly line of credit of up to $160 million with a variable interest rate (= Province of Ontario's cost plus 0.50% per annum) due June 2020. For the 5 years (2012 to 2016), the average outstanding IESO corporate monthly debt was $117,600,000/month.

(v) No, the IESO does not agree that establishing a variance account, as suggested by the Board, with any surplus paid to ratepayers, provides for greater transparency of the impact of pension and OPEB to benefit of the Board and ratepayers. Given the IESO's structure as a not-for-profit, the IESO utilizes its cash in an effective and efficient manner. Any excess cash is utilized to reduce debt and/or is invested in accordance with the IESO's Treasury policy. Therefore, reduced debt will lower interest expenses and invested cash will earn income – both of which will be reflected in ratepayer's costs.

(vi) Excluding any impacts for capitalized costs, smart metering expenses and customer education & market enforcement expenses:

(in thousand $)	2012	2013	2014	2015	2016
Pension Accrual	11,985	10,800	13,777	11,970	11,610
Pension Cash	(25,313)	(17,261)	(11,973)	(12,851)	(13,052)
Pension Difference	**(13,328)**	**(6,461)**	**1,804**	**(881)**	**(1,442)**
OPEB Accrual	6,482	6,907	8,166	6,901	8,127
OPEB Cash	(1,768)	(2,093)	(2,321)	(2,314)	(2,377)
OPEB Difference	**4,714**	**4,814**	**5,845**	**4,587**	**5,750**
Total Variance	**(8,614)**	**(1,647)**	**7,649**	**3,706**	**4,308**

(in thousand $)	2012	2013	2014	2015	2016
Change in debt	23,000	(9,000)	4,800	(39,000)	-

(vii) Excluding any impacts for capitalized costs, smart metering expenses and customer education & market enforcement expenses, the non-cumulative calculation of carrying charges for the OPEB difference would have been $215 thousand, $104 thousand and $121 thousand in 2014, 2015 and 2016 respectively. The impact would have been a reduction in the same amount in the rebates received by market participants in each of those years. (2014 surplus was carried over to the 2015 rebate due to merger.)

(viii) The IESO is not for profit organization; our expenses are covered by ratepayers through our IESO fee. Any disposition of interest charges would result in an interest expense, which would need to be funded by ratepayers or through a reduction in any rebate amount in the following year.

(ix) Internal labour is charged to capital projects, smart metering expenses and customer education & market enforcement expense and includes an appropriate burden rate for pension and benefits. The percentage of pension and OPEB costs included in the 2017 rate case is 11.2% and 10.3% respectively. In 2016, 91.5% of pension and OPEB expense was included in the IESO usage fee. Please note that these percentages exclude the impact of the PSAB transition items.

Pension and OPEB expenses for smart metering and customer education and market enforcement are shown in the IESO audited financial statements on the Statement of Operations and Accumulated Surplus within Compensation & Benefits (please refer to page 30 of Exhibit A-3-1). Pension and OPEB expenses that are capitalized are shown in the IESO audited financial statements on the Statement of Financial Position within Net tangible capital assets (please refer to page 29 of Exhibit A-3-1).

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