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BY COURIER

June 7, 2018

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

Dear Ms Walli:

RE: Hydro One Distribution Rate Application EB-2017-0049 - Regulatory Treatment of Pension and Other Post-employment Benefits (OPEB) Costs (EB-2015-0040)

This letter is further to the Ontario Energy Board's (OEB) report dated September 14, 2017 titled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs (EB-2015-0040)* wherein the OEB determined that it would set rates for the recovery of pension and OPEB costs using the accrual method of accounting and directed utilities to establish a variance account to track the difference between the forecasted accrual amount in rates and actual cash payments made, with a carrying charge applied to the differential, or "reference amount". The OEB provided the option for alternative methods of calculating the differential to be proposed by utilities.

Hydro One filed its distribution rates application on March 31, 2017 and had intended to submit its proposal on the treatment of OPEB expenses in a subsequent application. However, after further review the company notes that it would have been more appropriate to make a submission as part of this application.

Given the timing of this submission, Hydro One respectfully suggests that it could be dealt with as part of the EB-2017-0049 hearing through written interrogatories and responses and final submissions to be made as part of the written argument. Hydro One is also prepared to provide a witness on the final day of the hearing to answer questions about its proposed methodology. Failing this Hydro One submits the final determination of this process may be dealt with in a subsequent application at the time of requested disposition of the carrying charges account.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

cc Parties to EB-2017-0049 (electronic)

Pension and OPEB Asymmetrical Carrying Charge Account

Background – EB-2015-0040

The Ontario Energy Board (OEB) issued a report on September 14, 2017 titled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (Report).¹ In the Report, the OEB determined that it would set rates for the recovery of pension and OPEB costs using the accrual method of accounting and directed utilities to establish a variance account to track the difference between the forecasted accrual amount in rates and actual cash payments made, with a carrying charge applied to the differential, or “reference amount”.

In Appendix C of the Report, the OEB indicated that the guidance provided was based on the assumption that the total gross accrual cost was reflected in utilities’ total OM&A expense. It also recognized that where utilities capitalize a portion of their pension or OPEB amounts, this approach may not be appropriate and utilities were given the option to propose an alternative method of calculating the reference amount.² More specifically, the OEB stated that:

*The forecast accrual reference amount that will be used to calculate the entries recorded in this new account assumes that the total gross accrual cost as determined by an actuarial valuation is what is recorded in a utility’s total OM&A expense. 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, any party may propose an enhanced methodology for determining the reference amount and the appropriate carrying charge to be applied, including journal entries consistent with the intent of the account as outlined in this Report.*³

¹ *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*, Report of the Ontario Energy Board (September 14, 2017) (the Report) available online at <https://www.oeb.ca/sites/default/files/Report-of-the-Board-Pension-OPEB-20170914.pdf>

² Report at page 14

³ Report at page 20

Hydro One Treatment of OPEB Costs

While Hydro One recovers some of its OPEB costs through OM&A, it also capitalizes a material amount of the cost and also recovers a portion through a regulatory account, as follows:

- (i) 51% recovered through OM&A;
- (ii) 23% capitalized to Property Plant and Equipment; and
- (iii) 26% recorded in a regulatory account⁴ that Hydro One is proposing to recover over a twenty year rolling balance.

Proposed Calculation of the Reference Amount

Given that a material portion (49%) of OPEB costs is not recovered through OM&A, Hydro One proposes a modified approach that is more reflective of the actual amounts recovered in rates. Rather than determining the reference amount using the gross costs from the actuarial valuation, Hydro One proposes to calculate this amount based on the sum of the following, less cash expenses:

- The full amount of OPEB costs recorded in OM&A;
- The annual recovery of the OPEB costs recorded in the regulatory account and recovered over a 20 year period; and
- The capitalized OPEB expense which is recovered as part of the depreciation of PP&E.

Hydro One proposes to track the difference between the sum of these amounts and the actual cash payments in the variance account. With this change in calculating the reference amount, Hydro One would follow journal entries as outlined in Appendix D of the Report.

⁴ The regulatory account was approved in EB-2017-0338 for Hydro One's application for an accounting order establish a deferral account and is being proposed in Hydro One's ongoing distribution application EB-2017-0049