UNDERTAKING J14.6

Undertaking

To provide an answer as to whether what is being requested in this case, in terms of a Pension Expense Variance Account, is analogous to Hydro One transmission 2007/2008 case.

Response

While the nature of the Hydro One Transmission Variance Account is arguably broader than the account OPG has proposed, the source of the variance reflected in Hydro One's account is different.

Hydro One Transmission's Variance Account was to track variances "between actual pension costs and estimated pension costs" on a basis consistent with the OEB's decision relating to Hydro One's Distribution Pension Costs Account (EB-2005-0501 Ex F1, T1, S1, Pg. 3).

The Distribution Pension Costs Account was proposed to cover additional pension costs that were not included in rates (Board File # RP-2004-0180/EB-2004-0270). The additional pension costs arose because Hydro One had used the cash basis for estimating the pension cost to be included in rates at a time when its pension plan was in a surplus and, consistent with Canadian industry practice, this surplus was used to make the required employer contributions. As a result, there was no cash pension contribution and no expense included in rates.

In support of its proposed account, Hydro One referenced an earlier decision by the OEB in a Union Gas case (Board File # RP-2003-0063). In that case, Union had sought an increase in its pension costs primarily as a result of negative returns on pension fund assets due to declines in the equity capital markets and increased pension obligations as a result of a declining trend in long-term bond yields. The OEB recognized that these changes were beyond the ability of Union Gas to control and approved them. OPG's requested deferral account would similarly capture a change in pension costs, driven by the discount rate, which is beyond management's ability to control or accurately forecast.