Board Staff Interrogatory #301

Interrogatory

Reference:
Exhibit F4 / Tab 3 / Schedule 2 / p. 3
Exhibit F4 / Tab 3 / Schedule 2 / Attachments 1-2

Preamble:

Chart 1 at Exhibit F4 / Tab 3 / Schedule 2 / p. 3 shows the total pension and OPEB accrual costs, which were determined by Aon as set out in Attachments 1-2 of Exhibit F4 / Tab 3 / Schedule 2.

Question(s):

a) Please provide a table that reconciles the 2020 to 2026 accrual amounts in Chart 1 to the "Estimated Employer Pension Contributions / Benefit Payments" line in Schedules 3A to 3G of the Aon Report in Attachment 1.
b) Please explain the correlation between the pension and OPEB accrual amounts in Chart 1 and the Estimated Employer Pension Contributions / Benefit Payments. Please include a discussion on the correlation between the two for 2025 and 2026.

Response

a) – b)

OPG is not able to provide a reconciliation or correlation between the requested amounts, as discussed below. These amounts represent different constructs and are determined differently.

Pension and OPEB accrual amounts are the cost of providing the benefits earned by employees for providing service in that period. As discussed in Ex. F4-3-2, p. 5, OPG's accrual costs for pension and OPEB continue to be determined in accordance with US GAAP and include several components, including current service cost (net of required employee contributions for funded plans), interest cost on the benefit obligations at the appropriate discount rate, the expected return on OPG's registered pension plan ("RPP") fund assets using an assumed long-term rate of return, amounts for past service costs arising from plan amendments, and amounts for actuarial gains or losses.

For OPG's RPP, the estimated employer pension contributions are determined by funding valuations in accordance with the *Pension Benefits Act* (Ontario) which sets the minimum funding requirements for registered pension plans to ensure that plans have sufficient assets in place to meet existing and future obligations. Contributions must be made to fund the plan's current service cost, as well as any deficits through defined special payments over a period of time.

As OPG noted in prior proceedings and the EB-2015-0040 consultation, while many of the underlying inputs, assumptions and calculation methods are the same between the accrual accounting and funding calculations for the RPP, there are also a number of differences between the two as a result of different requirements and purposes of the calculations.[1] Such differences include the derivation of discount rates and certain other assumptions (Ex. L-F4-03-Staff-307), amortization mechanism for gains and losses, and timing of valuations, for example. Neither OPG nor Aon have attempted a mathematical reconciliation of these differences as this would not provide meaningful information.

For OPEB plans, the benefit payments represent amounts paid to retirees and dependents in accordance with the provisions of the plans and bear no relationship to the accrual costs for a particular year.

[1] For example, see EB-2018-0243, Ex. L-H-Staff-8, p. 9 and footnote 29.