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June 27, 2025

By E-Mail

Ms. Sarah Bolduc
Independent Electricity System Operator
Station A, Box 4474
Toronto, ON M5W 4E5

Subject: Independent Electricity System Operator ("IESO")
Public Sector Accounting Expense Estimates for Fiscal Years 2025 Through to 2028
– Addendum to May 2, 2025 letter

Dear Sarah:

We are writing to provide an update to our May 2, 2025 letter which provided projections of the pension and non-pension postemployment/retirement benefit expense through 2028 for business planning purposes, for the following plans:

- Independent Electricity System Operator Pension Plan ("RPP");
- Independent Electricity System Operator Supplemental Employee Retirement Plan ("SERP"); and
- Other (non-pension) post-employment and post-retirement benefit arrangements ("OPEB")

We have not made any adjustments to our funding projections.

This Addendum should be read in conjunction with our May 2, 2025 letter.

As you know, Aon is currently performing January 1, 2025 actuarial valuations of the RPP, SERP and OPEB. Prior to January 1, 2025, the most recent actuarial valuations were completed at January 1, 2022 for all three plans, and it is these valuations that form the basis for our estimates provided in the May 2, 2025 letter. While the January 1, 2025 valuation results are not yet available, we have reviewed the membership data, and as noted in our earlier letter, have observed a significant increase in active employee headcount since the last valuation at January 1, 2022.

Our previous estimates accounted for the higher headcount in the RPP expense estimates. We have now updated our expense estimates for the OPEB to account for the higher headcount. We have not adjusted our SERP estimates as our review indicates the impact is not significant. We have limited any adjustments to an estimate of the impact on the annual service cost. Once the valuations are completed there will be other gains and losses revealed as a result of experience different from expected that will impact the fiscal 2026 expense and beyond for the three plans.

We have increased the OPEB service cost by the percentage increase in pensionable earnings at January 1, 2025, over the expected pensionable earnings in 2025, based on the 2022 headcount. This results in a 27% adjustment to the service cost. As a result, our estimate of the 2026 to 2028 OPEB expense is higher by approximately $2.5 million to $3.3 million per year, compared to our initial estimate.

We have continued to use the discount rate, return on asset assumption, salary increase assumption, and asset roll forward methodology as described in our May 2, 2025 letter. These assumptions were based on the financial information available at March 31, 2025.

As a reminder, in conducting this analysis, we have used:

- Plan membership information supplied by IESO as of January 1, 2022 for the pension plans, as summarized in the summary of results for the January 1, 2022 actuarial valuation, adjusted to reflect higher headcount for the RPP. No other experience gains or losses are reflected in these estimates;
- Plan membership information supplied by IESO as of January 1, 2022 for the OPEB plan, adjusted to reflect higher headcount. No other experience gains or losses are reflected in these estimates;
- Actual asset returns and cash flows for the RPP to March 31, 2025;
- Expected contributions based on the plan's funding policy and the July 1, 2023 cost certificate, adjusted for recent changes in membership;
- Expected benefit payments for the fiscal years 2025 through to 2028;
- An acceptable method to roll forward the plan liabilities; and
- An acceptable method to roll forward the plan assets, while assuming 0% return for April 2025 and then 6.00% investment return per year thereafter.

We have used the same actuarial methods and assumptions as were used for the fiscal 2024 year-end disclosure with the exception of the following:

- OPEB and SERP discount rates reflect market conditions as at March 31, 2025. The discount rate is the same as at 2024 year end.
- Salary increase assumption has been increased from 3.50% per year to 4.00% per year based on long term salary increase expectations for the IESO.
- Retirement rates have been updated to assume that the unreduced date will be based on 85 points for all PWU members with less than 82 points as at March 31, 2025, and any Society members with less than 20 years at March 31, 2025.

We note that the 2025 expense included in this letter is not expected to change unless there is a significant event that would require an adjustment, such as changes due to collective bargaining, plan design changes or substantial membership changes. The 2026, 2027 and 2028 expense estimates will differ from these estimates as a result of asset returns differing from expectations, changes in interest rates and economic expectations impacting discount rates, and differences in contributions and benefit payments. Furthermore, the results of the January 1, 2025 valuations will be reflected in the Fiscal 2025 year end disclosure and in the 2026 expense.

See Appendix B (Addendum) for a breakdown of each benefit plan's expense by component.

Expense (in CDN $000s) (June 2025 Update)	2025	2026	2027	2028
RPP	$ 8,122	$ 12,911	$ 9,819	$ 10,152
SERP	2,517	2,990	3,048	3,116
OPEB	12,255	15,734	17,033	18,381
Total	**$ 22,894**	**$ 31,635**	**$ 29,900**	**$ 31,649**

Sincerely,

Linda Byron, FSA, FCIA
Senior Partner

Enclosures

cc: Ms. Tatum Gunn , IESO
Mr. Luke Little, IESO
Mr. Sam Deckert, Aon
Mr. John Radich, Aon

Appendix B (Addendum)

Independent Electricity System Operator
PSAB Expense Projection for FY2025-2028 (in CDN $000s)

June 28, 2025 Update

	RPP	SERP	OPEB	Total
Inflation	2.00%	2.00%	2.00%	
Mortality	CPM Public MI-2017	CPM Public MI-2017	CPM Public MI-2017	
Fiscal 2025 Expense				
Discount Rate	6.00%	4.70%	4.70%	
Salary Scale	3.50%	3.50%	3.50%	
Expected Return on Assets	6.00%	n/a	n/a	
Current Service Cost	$ 12,746	$ 730	$ 7,266	$ 20,742
Interest Cost	42,876	1,722	7,778	52,376
Expected Return on Plan Assets	(45,958)	-	-	(45,958)
Amortization of Net Actuarial Loss (Gain)	(1,542)	65	(2,789)	(4,266)
Net expense (income)	$ 8,122	$ 2,517	$ 12,255	$ 22,894
Fiscal 2026 Expense				
Discount Rate	6.00%	4.70%	4.70%	
Salary Scale	4.00%	4.00%	4.00%	
Expected Return on Assets	6.00%	n/a	n/a	
Current Service Cost	$ 18,070	$ 918	$ 9,662	$ 28,650
Interest Cost	46,954	1,858	8,540	57,352
Expected Return on Plan Assets	(50,480)	-	-	(50,480)
Amortization of Net Actuarial Loss (Gain)	(1,633)	214	(2,468)	(3,887)
Net expense (income)	$ 12,911	$ 2,990	$ 15,734	$ 31,635
Fiscal 2027 Expense				
Discount Rate	6.00%	4.70%	4.70%	
Salary Scale	4.00%	4.00%	4.00%	
Expected Return on Assets	6.00%	n/a	n/a	
Current Service Cost	$ 18,657	$ 954	$ 10,117	$ 29,728
Interest Cost	49,626	1,895	9,232	60,753
Expected Return on Plan Assets	(55,019)	-	-	(55,019)
Amortization of Net Actuarial Loss (Gain)	(3,445)	199	(2,316)	(5,562)
Net expense (income)	$ 9,819	$ 3,048	$ 17,033	$ 29,900
Fiscal 2028 Expense				
Discount Rate	6.00%	4.70%	4.70%	
Salary Scale	4.00%	4.00%	4.00%	
Expected Return on Assets	6.00%	n/a	n/a	
Current Service Cost	$ 19,403	$ 993	$ 10,592	$ 30,988
Interest Cost	52,454	1,938	9,962	64,354
Expected Return on Plan Assets	(58,293)	-	-	(58,293)
Amortization of Net Actuarial Loss (Gain)	(3,412)	185	(2,173)	(5,400)
Net expense (income)	$ 10,152	$ 3,116	$ 18,381	$ 31,649