OEB Pension and Other Post-Employment Benefits Costs Risk

In its decision on OPG's cost of service rate application for 2014 and 2015, released on November 20, 2014, the Ontario Energy Board (OEB) rejected the accrual method of accounting for determination of Pension and Other Post-Employment Benefit (OPEB) costs for ratemaking in years 2014 and 2015.

As a result of the decision, OPG was instructed to recover costs on a cash basis for the test period (i.e., 2014 and 2015) and was required to track the difference [between accrual and cash methods] in a deferral account, which was to be subject to a separate regulatory process in the future. This created for OPG a significant level of uncertainty as to whether it would be able to recover the amounts in the deferral account.

The excerpt below from the OEB's December 28, 2017 Decision and Order on OPG's rate application provides the basic facts around the OEB Pension and Other Post-Employment Benefit Costs risk. See also the *Further Comments and Explanation*. OPG did not apply for a decision on the Pension and OPEB deferral account as the item was being dealt with through a generic hearing on the subject by the OEB and the conclusion had not been reached at the time of OPG's filing of the rate application.

Note that the risk, which reflects OPG`s Pension and OPEB Cost deferral account balance, is updated to $552 million as of September 30, 2017 [consistent with the $600 million estimated risk amount in 2018-19].

Excerpt from OEB Decision and Order (EB-2016-0152), page 118

> On May 18, 2017, the OEB issued its EB-2015-0040 report on *Regulatory Treatment of Pension and Other Post-Employment Benefits (OPEBs) Costs.* The report established the accrual method as the default rate-setting method to recover approved pension and OPEB costs *subject to the OEB finding in any particular case that it leads to just and reasonable rates* [emphasis added]. In its submission, OEB staff submitted that there are implementation matters regarding disposition of deferral and variance accounts and the consideration of the transition to accrual. In its reply argument, OPG submitted that it would be appropriate to clear the Pension & OPEB Cash Versus Accrual Differential Deferral Account at the same time as its application for 2018 hydroelectric payment amounts. OPG repeated its submission from the EB-2015-0040 proceeding which noted that under the requirements of USGAAP, the period of deferring amounts recorded in the Pension & OPEB Cash Versus Accrual Differential Deferral Account must not exceed five years from the time that they were incurred. For example, amounts recorded during November 2014 must begin to be recovered no later than November 2019 and must be fully recovered within 20 years of November 2014. *Failing this, OPG will be required to write off the regulatory asset for these amounts* [emphasis added]. As such, OPG will be required to file an application to review the disposition of the Pension & OPEB Cash Versus Accrual Differential Deferral Account in short order.
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> …. OPG may file to dispose of applicable audited deferral and variance account balances at the same time as its application for 2019 hydroelectric payment amounts in

calendar year 2018. OPG may include its proposal for review of the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

<u>Further Comment and Explanation</u>

The OEB's December 28, 2017 OPG rate decision instructs OPG to submit a request to dispose of its Pension and OPEB deferral and other deferral and variance account balances during 2018 for its 2019 payment application. **OEB's final decision will be made at that time.** The fiscal risk noted is due to the fact that the OEB in its review of the deferral account could disallow the disposition of certain amounts in the account ($716 million as of December 31, 2017). As with any regulatory risks with exposure to regulator's oversight, the risk is difficult to assess.

Note: The risk of approximately $600 million has been flagged in Electricity Finance Branch's Electricity Sector Outlook which is distributed from time to time to staff in the Office of the Budget, Office of Economic Policy and Treasury Board Secretariat, including the Office of the Provincial Controller, since early 2015. In early 2015, the risk noted in the Revenue Risks tab of the Electricity Sector Outlook was for about $460 million before being updated to $600 million in more recent versions.