Message

From: Susan Nicholson [/O=POWER AUTHORITY/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=SUSAN NICHOLSON417]
Sent: 2016-10-25 4:00:09 PM
To: Kim Marshall [/O=POWER AUTHORITY/OU=First Administrative Group/cn=Recipients/cn=Kim.Marshall]; Lia Kosic [/O=POWER AUTHORITY/OU=First Administrative Group/cn=Recipients/cn=Lia.Kosic]
CC: Susan Nicholson [/O=POWER AUTHORITY/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=Susan Nicholson417]
Subject: FW: IESO - Transcript_IESO_TC_EB-2010-0046_20110218.DOC
Attachments: Transcript_IESO_TC_EB-2010-0046_20110218.DOC

For your files.

CONTINUED QUESTIONS BY MR. CAPUTO:

MR. CAPUTO: So I believe we are moving on to operating costs, then. The first item we have is to do with pension expenses.

Could you please refer to Exhibit B, tab 2, schedule 1, page 13? Now, that page shows that the pension costs are expected to increase from $15.7 million in 2010 to $18.6 million in 2011, which is an increase of 18.5 percent.

From the table, a major contributor to the increase is amortized actuarial losses. Board Staff would like to explore the rationale and reasonableness of the significant increase in pension costs from 2010 to 2011.

Now, my question related to pension cost is: Please provide a detailed explanation of the proposed increase of 5.1 million in unamortized actuarial losses from 2010 to 2011.

MS. NICHOLSON: So we are starting with pension expense and change in accounting standards in the first question, so I get all of my tough stuff out of the way upfront.

If I can refer everybody to page 13 of 16 in Exhibit B, tab 2, schedule 1, pension expense at a high level is an actuarial calculation in the current year of what you need to expense in order to meet your future obligation to fulfil that promise to your employees.

If you look at the table provided on page 13, across the top there are current service costs, interest on benefit obligations, and the expected return on assets.

All of those components of pension expense are derived by the actuary based on management's assumptions on, for example, what the return on assets will be in any given year.

The amortization on experience is the actual difference between what our assumptions had been for the actuarial calculation and what they actually were.

On January 1st, 2011, the IESO will be moving to Public Sector Accounting Board standards. That is because commercial GAAP does not exist any longer for the IESO. The IESO is classified as another government organization, and we had the option of moving to international financial reporting standards or to Public Sector Accounting Board standards, and we are moving to PSAB.

At the date of transaction -- or transition, excuse me, for moving to PSAB, any unrealized or unrecognized experience gains or losses get moved into a deficit account. It doesn't mean they go away or that the IESO still doesn't have to account for those obligations. They get moved, under accounting, into a deferral account. And that amount is $56.1 million as of January 1st, 2011.

What we have presented in our rate case is a year-over-year similar presentation to accounting treatments as opposed to just taking the $56.1 million and expensing it all in 2011.

So in the past, under commercial GAAP, the unrealized amortized -- unrecognized unamortized gains and losses would have been amortized over EARSL, which is your estimated average remaining service life on employees. At the IESO, that is eleven years. So the 5.1 is really just that 56.1 over 11 years.

If you go down the columns from start to finish, the change in the actuarial calculation on current service costs is $0.2 million. The actuarial calculation on the interest and benefit obligation is 0.9 million. The expected return on assets is 0.5 million. And from the top to the bottom on the experience -- on the amortization of experience, it is 1.7 million in total.

The reason the table was presented the way it was was to try and demonstrate what the change in accounting was going to cause. If we had continued along with commercial GAAP, our pension expense would have been the 19.2 million shown about half way down the table.

By moving to PSAB, there is a change in the discount rate, and that actually decreases the cost to $13.5 million. But we wanted to keep everything equal year over year, and so we have split-out that $5.1 million separately.

So actually, you know, it is 18.6 under PSAB with the 5.1 in, versus 19.2 million, what would have been under commercial GAAP. So it is even actually a little bit lower, and that is because of the change in discount rates.

MR. CAPUTO: So that sounds like it is mainly due to a change in accounting practices, the change from 2010 to 2011.

If we are looking at the totals, I mean, 15.7 to 18.6, I believe?

MS. NICHOLSON: Year over year, you always have change in your actuarial calculation on your pension expense, because you have -- discount rate is usually the biggest driver of the change at the IESO.

You know, as the discount rate increases or decreases, that forces the actuarial calculation to say, in your current year, your expense needs to go up or down.

MR. CAPUTO: So the discount -- the change in discount rate alone would have resulted in a cost of 5.5 million; is that right?

MS. NICHOLSON: 5.5? I am not sure where 5.5 million comes from.

MR. CAPUTO: I am looking at the table on page 13.

MS. NICHOLSON: That's --

MR. CAPUTO: Yeah, the actual change to the discount rate, which added 5.5 million to the -- to the actual pension costs for 2011.

MS. NICHOLSON: But there is also a change in discount rate that would have happened under commercial GAAP of 2 million.

MR. CAPUTO: Okay. So the difference is really 3.5 million?

MS. NICHOLSON: Yes.

MR. CAPUTO: The net impact on the pension cost?

MS. NICHOLSON: In total. And that is a decrease, because under PSAB, the discount rate actually increases to 6.5 percent. It is equivalent to your expected rate of return on assets.

The positive thing from a rate case perspective with that is you are your expected rate of return on assets is fairly flat. It doesn't fluctuate the way the discount rate would have changed under commercial GAAP.

MR. CAPUTO: Well, I don't have any further questions on this. Do you have any questions, Kristi?

MS. SEBALJ: I am going to show my complete ignorance by trying to get you to clarify.

I followed you up until -- so I understand the 9.2 is commercial GAAP, and the 13.5 is PSAB; correct?

MS. NICHOLSON: Correct.

MS. SEBALJ: I guess the piece that I am having a hard time with is EARSL, and whether or not that applies for the purposes of this year.

MS. NICHOLSON: Okay.

MS. SEBALJ: Because it says here:

"Under past accounting standards this amount would have been amortized over the estimated average remaining service life EARSL."

Which you explained is the 11 years. So what I am not understanding is what is happening in this year that is different from that, because the 5.1 million -- I thought that was the EARSL treatment; is that correct? 5.1 million, and we are not doing that this year.

Instead it is the 18.6; is that right?

MS. NICHOLSON: No.

MS. SEBALJ: Okay. That is where I lost you.

MS. NICHOLSON: Yes. Let me try and clarify, and hopefully this will make sense. And if not, we will try again.

So in our 2010 rate, under commercial GAAP we would have had an unamortized amount -- an unamortized loss on experience that would have been taken over EARSL, and that would have been included in our 15.7.

MS. SEBALJ: Okay.

MS. NICHOLSON: For the 2010 pension costs.

If we move strictly to accounting under PSAB, our total pension costs for 2011 would be 13.5.

However, we would have a 56.1 million unamortized experience loss on our books that we would still have to recover. It is still part of our pension obligation.

So what we have proposed in this rate case is to treat it the way we have always treated it, and amortize it over EARSL, so we add 13.5 plus the 5.1 to get the 18.6.

MS. SEBALJ: Perfect. Now I get it. Thank you.

MS. NICHOLSON: It is super-complicated.

[Laughter]

MS. SEBALJ: Sorry, when I say "I get it" that is relative. For my purposes, I get it. I don't get it the way you get it.

From: Adrian Pye
Sent: October 25, 2016 3:49 PM
To: Susan Nicholson
Subject: IESO - Transcript_IESO_TC_EB-2010-0046_20110218.DOC

Susan,

Rather than cutting and pasting here is tech conference transcript. Search for EARSL and then go back a page or two to Robert Caputo's question.