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**Commission de l'énergie  
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**VIA E-MAIL AND WEB POSTING**

May 19, 2016

To: All Registered Stakeholders

**Re: Consultation on the Regulatory Treatment of Pensions and  
Other Post-Employment Benefit Costs  
Board File Number EB-2015-0040**

The Ontario Energy Board (OEB) began a consultation in May 2015 on rate-regulated utility pensions and other post-employment benefits (OPEBs) in the electricity and natural gas sectors. The objectives of the consultation are to develop standard principles to guide the OEB's review of pension and OPEB costs in the future, to establish specific information requirements for applications, and to consider appropriate regulatory mechanisms for cost recovery which could be applied consistently across the gas and electricity sectors for rate-regulated entities.

The [initiation letter](#) contained a list of questions representing key areas of interest for the OEB and stakeholders were asked to provide their views and feedback. The OEB received [16 submissions](#) representing 19 registrants. The OEB is now scheduling a stakeholder meeting to provide a forum for discussion of the issues in this consultation.

The OEB retained KPMG to provide technical support and KPMG has prepared a [report](#) to assist the OEB in understanding the issues and options that may be available. The OEB is making the report available to stakeholders through the OEB website in preparation for the stakeholder forum.

The KPMG report is not a representation of the OEB's views on the matters described in the report. The OEB will consider the report along with the initial submissions it received from stakeholders, and other information that will be received through this consultation.

The KPMG report proposes certain principles, filing requirements and regulatory mechanisms for consideration by stakeholders and the OEB. Some of these matters were also addressed in stakeholders' submissions.

Several stakeholders referred to the principles enunciated in the OEB's [Report of the Board: Transition to International Financial Reporting Standards](#), which will be considered by the OEB in this consultation and are appended to this letter as Attachment A. The OEB intends to use any principles developed through this consultation to guide the assessment of any new information requirements and regulatory mechanisms for recovery of pension and OPEB costs.

Any information requirements will be considered in the context of the OEB's existing filing requirements and the OEB's approach to regulation established with the renewed regulatory framework. The benefits of developing consistent regulatory mechanisms for pensions and OPEBs, as opposed to continuing to address pensions and OPEB issues case-by-case, will be assessed in this consultation, as well as which mechanisms would facilitate the setting of just and reasonable rates for gas and electricity utilities.

The OEB recognizes that issues relating to pensions and OPEBs may arise in individual applications before this consultation is concluded. OEB panels will continue to consider proposals in the context of those applications to determine appropriate treatments.

The OEB will determine next steps in this consultation and what policy direction is required if any, following the stakeholder forum.

### Stakeholder Forum: July 19, 2016

The OEB will convene a stakeholder meeting beginning July 19, 2016, and continuing July 20, 2016 if necessary, to provide a forum for discussion of the issues in this consultation. The meeting will consist of three parts:

1. Introduction and overview of pension and OPEB accounting and the methods presently used by Ontario's regulated utilities. This overview will be presented by KPMG to inform and update the consultation participants.
2. Presentation of the KPMG report, with an opportunity for participants to ask questions of KPMG.
3. Stakeholder presentations, with an opportunity for other participants to ask questions of the presenters. This is also an opportunity for stakeholders to update their written submissions on the OEB's questions in the May 14<sup>th</sup> letter.

Attachment B to this letter is a draft issues list for the stakeholder meeting. The OEB invites comments on the issues list, including suggested revisions for the OEB's consideration. Stakeholders who wish to file comments on the draft issues list must do so by **June 9, 2016**. A final issues list and agenda will be circulated to registered parties in advance of the stakeholder meeting.

Stakeholders who wish to make a presentation at the forum must write to the OEB at the address below by **June 9, 2016** to reserve a place on the agenda.

The stakeholder forum and the materials considered in this consultation will be publicly accessible through the OEB website.

Questions on this consultation can be addressed to Jennifer Lea at [jennifer.lea@ontarioenergyboard.ca](mailto:jennifer.lea@ontarioenergyboard.ca) or 416-440-7631.

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary

Appendices: Appendix A: Principles Adopted for IFRS Transition  
Appendix B: Draft Issues List

**Appendix A**  
**Principles Adopted for IFRS Transition**  
To Cover Letter Dated May 19, 2016  
EB-2015-0040

**1. Principles (of IFRS Transition)**

- 1.1 The methodologies used by the Board to establish just and reasonable rates have not always been the same as those used for external financial reporting purposes. The Board has and will retain the authority to establish regulatory accounting and regulatory reporting requirements. While IFRS accounting requirements are an important consideration in determining regulatory requirements, the objective of just and reasonable rates will continue to be the primary driver of such requirements.
- 1.2 Future regulatory accounting and regulatory reporting requirements established by the Board will continue to be based on sound regulatory principles. These principles include fairness, minimizing intergenerational inequity and minimizing rate volatility.
- 1.3 Future regulatory accounting and regulatory reporting requirements established by the Board will, in taking into account IFRS requirements, balance the effects on both customers and shareholders.
- 1.4 Future regulatory accounting and regulatory reporting requirements established by the Board will be aligned with IFRS requirements as long as that alignment is not inconsistent with sound regulatory rate making principles.
- 1.5 Future regulatory accounting and regulatory reporting requirements established by the Board will be universal and standardized for all utilities, while recognizing that utility-specific issues can be addressed through a utility's applications. The Board will not require modified IFRS filing and reporting requirements for utilities that are not otherwise required to adopt IFRS for financial reporting purposes.

**Source:** [Report of the Board: Transition to International Financial Reporting Standards](#) (EB-2008-0408), July 28, 2009, Appendix 2: Summary of Board Policy

**Appendix B**  
**Draft Issues List**  
To Cover Letter Dated May 19, 2016  
EB-2015-0040

On May 14, 2015, the OEB issued its initial communication to stakeholders regarding the consultation process on the regulatory treatment of pension and OPEB costs. As part of that communication, stakeholders were provided with a list of questions representing key areas of interest for the OEB and were asked to provide their views and feedback. On May 19, 2016, the OEB circulated a [report](#) from KPMG to assist with this consultation.

The OEB invites stakeholders to provide their comments on the draft issues list below. The draft issues are based on the initial set of questions in the OEB's initiation letter. The issues will form the basis for the discussion at the upcoming stakeholder forum. Stakeholders who wish to file comments on these draft issues must do so by **June 9, 2016**. A final issues list and agenda will be circulated to registered parties in advance of the stakeholder meeting.

**Draft Issues:**

*General Principles*

1. What principles should the OEB adopt in addressing pension and OPEB issues?
2. Are there other types of costs previously considered by the OEB that provide suitable analogies for the consideration of pension and OPEB issues?

*Information Requirements*

3. Should the applicants be required to compare their pension and OPEB costs to industry norms and/or other benchmarks?
4. What other relevant information should the Board evaluate in order to effectively assess the pension and OPEB costs that a rate-regulated entity is seeking to be included in the rates charged to customers?

*Accounting and Recovery in Rates*

5. a) Should the OEB establish accounting and recovery methods for both the electricity and gas sectors?
  - b) What criteria should be considered to determine the appropriate approach?

- c) If one method is adopted, what should it be: cash (pay-as-you-go) basis, funding contribution basis, accrual (accounting cost) basis or another method?
  - d) Should the method for recovering costs relating to registered pension plans be different from that used for unregistered pension plans and OPEB plans?
6. a) Should the OEB take into account impacts on financial reporting (US GAAP, ASPE and IFRS), legal, and tax matters?
- b) If so, what are the issues that should be considered when determining the appropriate approach?
- c) For comparative analysis, how should the OEB address differences that arise from (driven by) the basis of accounting that is used by a rate-regulated utility? For example, the treatment of re-measurements under IFRS is different to their treatment under US GAAP and ASPE.
7. a) Would it be appropriate to establish a deferral or variance account(s) in association with the approaches discussed above in numbers 5) and 6) respectively?
- b) How should the account(s) operate?
- c) Should interest be applied to the account(s), and if so, why?
- d) How should the transition from the current practice to the new method of recovery be addressed?
- i. Should the transition be phased-in, applied retrospectively with catch-up adjustments for prior periods, prospectively with no adjustments for prior periods or a combination of any of these methods?
  - ii. Should a generic approach be used or should the transition be addressed on a case-by-case basis?
8. a) Would it be appropriate to establish some form of segregated fund or similar set-aside mechanism for amounts which are collected from ratepayers before they are paid out?
- b) What tax, legal, accounting or other issues arise?

- c) How should the transition to the new practice be addressed?
  - i. Should the transition be phased-in, applied retrospectively with catch-up adjustments for amounts collected from ratepayers to date but not yet paid out, prospectively with no adjustments for prior periods or a combination of any of these methods?
  - ii. Should a generic approach be used or should the transition be addressed on a case-by-case basis?
- 9. What information should the utilities report and how frequently should it be reported?