

1 Q. Please provide a reconciliation of the EFB amounts from 2002 actuals to
2 forecast 2007, including all actual and forecast spending and actuarial
3 calculations.

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6 A. Hydro accounts for Employee Future Benefits (EFB) on an accrual basis.
7 EFBs include a severance payment on retirement and health care benefits
8 for retirees on a cost shared basis. The expected cost of providing these
9 EFBs has been actuarially determined using the projected benefit method
10 prorated on service and management's best estimate of salary escalation,
11 retirement ages of employees and expected health care costs. This
12 methodology is in accordance with Canadian Generally Accepted Accounting
13 Principles (GAAP).

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15 EFB expense is comprised of:

- 16 • the cost of current service,
17 • interest, which is calculated on the accrued obligation
18 • amortization of actuarial losses - the excess of net cumulative gains and
19 losses over 10% of the accrued benefit obligation are amortized over the
20 expected average remaining service life of the employee group, which is
21 approximately 12 years.

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23 Actual severance payments to employees upon retirement and Hydro's share
24 of retiree health care benefits are recorded as reductions to the accumulated
25 liability.

1 Schedule 1, page 9 of 10 of M G. Bradbury's evidence contains a continuity
2 schedule for EFBs for the period 2002 through the 2007 forecast. Actuarial
3 valuations were performed effective December 31, 2002 and December 31,
4 2004. Each time an actuarial valuation has been performed, there has been
5 a revision to the project annual current service cost and a revision to the
6 accrued EFB obligation - which gives rise to a change in unamortized gains
7 or losses. Hydro estimates the benefits which will be paid in a given year
8 based on expected retirements and health care costs.