

- 1 **Q. Further to the reply to CA-NP-45 (part (a)), please provide a copy of the Board's**
2 **reasons in approving in December of 2008, Hydro One's deferral account to deal**
3 **with variances in pension expense.**
4
5 A. Attachment A provides an excerpt from the Ontario Energy Board Decision EB-2007-
6 0681 concerning the Pension Cost Differential Account for Hydro One Networks Inc.

**Excerpt from OEB Decision EB-2007-0681
on Pension Cost Differential Account**

Ontario Energy Board Commission de l'énergie
de l'Ontario



EB-2007-0681

IN THE MATTER OF AN APPLICATION BY:

HYDRO ONE NETWORKS INC.

2008 RATES

DECISION WITH REASONS

December 18, 2008

practice. Despite rate mitigation, there will be substantial rate impacts on the acquired customers arising from harmonization and using the larger April 30, 2008 balances would further mitigate the impacts. Further, the Board sees merit in Board staff's suggestion to accelerate the disposition. This would reduce the initial rate impact and it would also lessen intergenerational inequity.

Accordingly, in the special circumstances presented in this case, the Board approves the disposition of the April 30, 2008 \$77.0 million net credit balance, which is listed as a subtotal in the above table and which excludes the smart meter variance account balances.

Consistent with its finding on the treatment of smart meter costs elsewhere in this decision, the Board also approves the disposition of the December 31, 2007 smart meter variance account balances, plus interest improvement to April 30, 2008, which represents a \$6.0 million net debit balance recoverable from ratepayers. In so finding, the Board is satisfied with the explanation by the Company in its reply argument that the manner in which it has applied carrying charges on the smart meter variance account does not constitute double counting.

The disposition of these balances shall be to the new rate classifications as proposed by Hydro One but the disposition shall be over a two year period, the starting date to coincide with the effective date of the new rates.

The Board has also noted that Board staff had questioned why the Company does not use account 1588 to record line loss variances per the Board's previous directions. As Hydro One pointed out, line losses is one of the settled issues, which the Board accepted. The Board therefore does not feel that this is the proceeding to deal with this issue raised by Board staff.

New Deferral Account

Hydro One requested Board approval for the following three new deferral accounts: Pension Cost Differential Account; OEB Cost Differential Account; and Bill Impact Mitigation Account.

Pension Cost Differential Account

In this account, Hydro One proposes to track the difference between forecast and the actuarially-determined pension obligations.

Some intervenors objected to the establishment of this account on the grounds that there is no regulatory precedent, that there is no such account for Hydro One's transmission business, and that the risk will be shifted from the shareholder to the ratepayer.

These intervenors, and Board staff, suggested that pension costs for 2008 be reduced by \$1.5 million to reflect the actuarial valuation filed with the Financial Services Commission of Ontario.

Hydro One argued that the deferral account will eliminate risk for both ratepayers and the shareholder and noted that there is a precedent, given that the Board had previously approved such an account for Hydro One Networks Transmission.

Board Findings

Pension obligations are common to all distributors. The Board's Accounting Procedures Handbook sets out the deferral accounts that all distributors may generally utilize without specific approval. A category for pension obligations is not on that list. In distributor-specific cases the Board has made exceptions to the general rule. In this case, given that a pension cost differential account has already been authorized by the Board for Hydro One Networks Transmission and these costs relate to personnel in the same corporate structure, it is reasonable to extend this regulatory treatment to Hydro One Networks. This account shall accrue interest at the Board's prescribed rate.

Since the updated actuarial valuation is already available, Hydro One shall reduce its forecast pension costs by \$1.5 million for purposes of setting 2008 rates and the adjusted pension costs shall form the reference value for purposes of the variance account.