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RP-2004-0180

EB-2004-0270

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IN THE MATTER OF an application under section 78 of the
Ontario Energy Board Act, 1998, S.O. 1998, c15 (Sched B);

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BEFORE:

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Paul Sommerville
Presiding Member

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Cynthia Chaplin
Member

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George Dominy
Member

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DECISION AND ORDER

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On June 1, 2004, Hydro One Networks Inc. (“Hydro One”) made an application to the Ontario Energy Board for an order or orders approving the establishment of a deferral account to record its cash pension costs and interest thereon in relation to its Distribution business.

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Hydro One also sought the Board’s confirmation of the prudence of its pension expense and the Board’s direction for the inclusion of pension costs in future rates. Hydro One stated that the required increase in future rates to allow for the recovery of the annual pension charge and the recovery of deferred pension costs would be substantial if the recovery of the deferral account was delayed. Accordingly, Hydro One asked that as the funding of the pension costs is a current period cash cost, the Board approve the recovery of the deferred pension costs in rates on an interim basis commencing in March 2005, coincident with other expected rate changes, or as soon as is practical thereafter.

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Included with the application was a letter from the Minister of Energy dated April 15, 2004 which indicated approval for the application to be made for an accounting order as required by section 79.6(1) of the Ontario Energy Board Act, 1998. The letter stated that Hydro One could apply to the Board for an accounting order to enable it to record the operating expense portion of the company’s anticipated increase in pension contributions, related to its distribution business, in a pension deferral account.

The Minister also asked that the Board complete its review of Hydro One's application, including an assessment of the prudence of any anticipated increase in the company's pension contributions, and the portion to be recorded as an operating expense, as expeditiously as possible. The Minister's letter took note of Hydro One's anticipation that it would seek to recover the accumulated amount in the pension deferral account through its distribution rates. The Minister stated that granting permission to proceed to the Board with Hydro One's application at this time did not constitute a guarantee that Hydro One would be able to recover distribution-related pension contributions in future rates.

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The Board is prepared to grant an order approving the establishment of a deferral account to record Hydro One's cash pension costs and interest thereon in relation to its Distribution business, as proposed in Hydro One's application. The Board is not prepared to grant Hydro One's other requests at the present time.

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The Board dispensed with a hearing and notice of this proceeding on the basis that no party other than the applicant would be materially affected by the issuance of an accounting order.

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The Board is of the view that where Hydro One's request for a determination of prudence regarding its pension costs is concerned, such a request cannot be considered in isolation. A prudence review is a fundamental exercise of judgement involving an examination of a particular cost and its relationship to an applicant's overall financial and operating position and is normally undertaken as part of the process of deciding whether to pass a cost through into rates.

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The Board notes its recent decision on the prudence of Union Gas' pension costs, referenced by Hydro One in the application, arose from an application by Union Gas for a general rate adjustment. The Board's decision in that case was based on a detailed review of Union Gas' overall financial and operating position, and not just pension costs in isolation, as is contemplated by Hydro One's application request.

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Accordingly, the Board will not make a determination as to the prudence of Hydro One's pension costs at this point in time.

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However, the Board notes that prudently incurred costs of this kind are normally recoverable as part of a general rate adjustment application.

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The Board is currently undertaking a process to establish approved rates for electricity distributors, based on updated revenue requirements, with the intent that these new distribution rates will be effective on May 1, 2006. Post-retirement benefits and pensions is one issue that will be under consideration as part of this process, which the Board believes is the most appropriate forum for dealing with issues of the kind raised by this application.

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The Board is mindful of Hydro One's concerns that the magnitude of the increase in future rates that may be necessary to allow for the recovery of the annual pension charge and the recovery of deferred pension costs will be substantial if the recovery of the deferral account is delayed. However,

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the Board does not interpret the Minister's letter of April 15, 2004 as providing Hydro One with permission to apply for the recovery of the deferred pension costs in rates as has been requested.

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THE BOARD ORDERS THAT:

- 1 In accordance with the Board's Accounting Procedures Handbook, Hydro One shall record: (1) its cash pension cost included in its operating and maintenance costs associated with its Distribution business in the deferral account 1508 - Other Regulatory Assets, Pension Regulatory Asset - Dx; (2) its interest expenses on the balance in the deferral account 1508 - Other Regulatory Assets, Pension Regulatory Asset - Dx - interest improvement; and (3) pension costs that are recovered by Hydro One through rates in the deferral account 1508 as an offset to these amounts.

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DATED at Toronto, July 14, 2004.

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ONTARIO ENERGY BOARD

Peter H. O'Dell
Acting Board Secretary

