

1 **Other Comprehensive Income MIFRS Post-Employment Adjustment**
2 **Request for New Deferral Account**
3 **Draft Accounting Order**

4 In Exhibit 9 Tab 1 Schedule 1 of the Application, Enersource requested a new
5 deferral account to be used for future re-measurements (future actuarial gains or
6 losses) of the defined benefit obligation which will be recorded in Other
7 Comprehensive Income (“OCI”) under MIFRS instead of being amortized in
8 OM&A using the corridor approach under CGAAP.

9 Actuarial gains and losses result from increases or decreases in the present
10 value of the defined-benefit obligation because of changes in actuarial
11 assumptions and experience adjustments. Some examples of causes of
12 actuarial gains and losses include:

- 13 • unexpectedly high or low rates of employee turnover, early retirement, or
14 mortality, or increases in salaries, benefits (if the formal or constructive
15 terms of the plan provide for inflationary benefit increases), or medical
16 costs;
- 17 • the effect of changes to assumptions concerning benefit payment options;
- 18 • the effect of changes in estimates of future employee turnover, early
19 retirement or mortality, or of increases in salaries, benefits (if the formal or
20 constructive terms of a plan provide for inflationary benefit increases), or
21 medical costs; and
- 22 • the effect of changes in the discount rate.

23 Enersource has applied to dispose of the actuarial gain relating to the post-
24 employment obligation recorded upon transition to MIFRS and the actuarial loss
25 recorded in December 2011. The net amount sought to be recovered over one
26 year is \$619. Furthermore, Enersource is proposing to record in this new
27 deferral account the actuarial gains and losses that are recognized in OCI

1 between the end of 2012 and the next cost of service rate application. If the
2 cumulative balance in this new account at the time of Enersource's next rebasing
3 is material, Enersource will seek to dispose of the balance at that time.
4 Enersource is not requesting to record carrying charges on the deferred balance.

5 The Ontario Energy Board's Filing Requirements for Electricity Transmission and
6 Distribution Applications, revised on June 28, 2012, states that the following
7 eligibility criteria must be met when seeking to establish a new deferral/variance
8 account:

- 9 • Causation - The forecasted expense must be clearly outside of the base
10 upon which rates were derived.
- 11 • Materiality – The forecasted amounts must exceed the Board-defined
12 materiality threshold and have a significant influence on the operation of
13 the distributor; otherwise they should be expensed in the normal course
14 and addressed through organizational productivity improvements.
- 15 • Prudence - The nature of the costs and forecasted quantum must be
16 reasonably incurred although the final determination of prudence will be
17 made at the time of disposition. In terms of the quantum, this means that
18 the applicant must provide evidence demonstrating as to why the option
19 selected represents a cost-effective option (not necessarily least initial
20 cost) for ratepayers.

21 Enersource proposes that the requested new deferral account satisfies the
22 eligibility criteria:

- 23 • Causation – Enersource has not included an amount of actuarial gains or
24 losses relating to its post-employment obligation in its proposed 2013
25 base revenue requirement as future actuarial gains and/or losses cannot

1 be predicted. Future re-measurements are the result of the change in
 2 actuarial assumptions and experience adjustments at the future valuation
 3 date.

- 4 • Materiality – The materiality of the actuarial gains and losses are
 5 undeterminable at this point in time. Depending on the change in actuarial
 6 assumptions, the quantum of the amount to be deferred may be material
 7 in one year and not in the next. Since the future adjustments cannot be
 8 estimated with any certainty, Enersource requests, for the purposes of the
 9 materiality eligibility criterion, that these unknown future adjustments be
 10 deemed to be material. However, Enersource proposes to dispose of the
 11 cumulative deferred balance only if it is a material amount at the time of
 12 disposition.
- 13 • Prudence – The recording of actuarial gains and losses in OCI is in
 14 accordance with IAS 19R and is therefore prudent.

15 In the event that an actuarial gain is recorded, Enersource proposes that the
 16 following general ledger entries be recorded (assuming a \$100 actuarial gain):

Debit	Post-employment Liability	\$100	Balance Sheet
Credit	OCI – Post-employment Adjustment	(\$100)	Income Statement
<i>To record actuarial gain in OCI.</i>			

17

Debit	OCI – Post-employment Adjustment	\$100	Income Statement
Credit	Proposed Deferral Account – OCI MIFRS Post-employment Adjustment	(\$100)	Balance Sheet
<i>To record refundable amount in proposed deferral account.</i>			

18 In the event that an actuarial loss is recorded, Enersource proposes that the
 19 following general ledger entries be recorded (assuming a \$100 actuarial loss):

1

Debit	OCI – Post-employment Adjustment	\$100	Income Statement
Credit	Post-employment Liability	(\$100)	Balance Sheet
<i>To record actuarial loss in OCI.</i>			

2

Debit	Proposed Deferral Account – OCI MIFRS Post-employment Adjustment	\$100	Balance Sheet
Credit	OCI – Post-employment Adjustment	(\$100)	Income Statement
<i>To record recoverable amount in proposed deferral account.</i>			

3 Enersource believes that the deferral of the post-employment adjustments will
4 prevent both Enersource and its ratepayers from bearing any gain or harm from
5 an actuarial adjustment.