RECOVERY OF PENSION AND OPEB ACCRUAL COSTS

1.0 PURPOSE

This schedule sets out OPG's proposal to recover amounts related to the company's pension and other post-employment benefits ("OPEB") costs recorded in the Pension & OPEB Cash Versus Accrual Differential Deferral Account established by the OEB in EB-2013-0321 and most recently continued in EB-2016-0152 (the "Interim Account").

OPG's proposal implements the OEB's policy on pension and OPEB cost recovery set out in the OEB's Report: *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (the "Report"), issued in the OEB's generic consultation on the issue (EB-2015-0040). OPG proposes to recover the audited balances of the Interim Account as of December 31, 2017, which total approximately $614M, and associated income tax impacts.

This schedule also sets out OPG's proposal for the application of the Pension and OPEB Forecast Accrual versus Actual Cash Payment Differential variance account ("New Differential Account") set out in the Report, as it relates to amounts proposed for recovery from the Interim Account.

2.0 OVERVIEW

The substance of this schedule is divided into three sections:

- Section 3.0 summarizes the OEB policy applicable to OPG's proposal to recover the audited balances in the Interim Account, as determined in two prior OPG payment amount proceedings and in the Report.

- Section 4.0 sets out OPG's proposed implementation of the OEB's policy on pension and OPEB cost recovery as determined in the Report, including as it relates to the recovery of the Interim Account balances.

- Section 5.0 sets out OPG's proposal for the application of the New Differential Account to the amounts recorded in the Interim Account prior as of December 31, 2017.

3.0 OEB POLICY ON PENSION AND OPEB COST RECOVERY

This section summarizes the OEB findings that established the Interim Account, determined the OEB policy on the regulatory treatment of pension and OPEB costs, and authorized OPG to seek recovery of the audited balances of the Interim Account in this application. Collectively, these prior findings determine the scope of the issue before the OEB in this proceeding as related to the Interim Account. The sub-sections below summarize the relevant elements of the prior OPG payment amount decisions and the Report.

3.1 ESTABLISHING THE INTERIM ACCOUNT

In EB-2013-0321, OPG proposed to recover its pension and OPEB costs for 2014 and 2015 based on the accrual method of accounting. Accrual accounting is used almost exclusively by regulated utilities in Ontario as the basis to recover pension and OPEB costs.[1] As addressed in the EB-2013-0321 proceeding, accrual accounting is also required by generally accepted financial accounting standards, including USGAAP, to measure and record pension and OPEB costs, and is consistent with the rate-setting methods in prior OEB decisions on OPG's payment amounts.

In the absence of an OEB ratemaking policy as it relates to pension and OPEB costs at the time of EB-2013-0321, the OEB determined that it would limit the amount of pension and OPEB costs included in OPG's 2014 and 2015 payment amounts to OPG's cash requirements for the period, being OPG's contributions to its registered pension plan and OPEB cash payments.[2] The OEB also established the Interim Account, effective November 1, 2014, to record the difference between OPG's actual pension and OPEB costs determined using the accrual accounting method applied in OPG's consolidated financial statements and OPG's actual "cash" pension plan contributions and OPEB payments for the prescribed facilities, pending the outcome of a generic proceeding on the regulatory treatment of pension and OPEB costs.[3,4] In establishing

[1] The exceptional instances in which utilities use methods other than accrual accounting to recover such costs were reviewed in the EB-2015-0040 generic consultation, as summarized in section 3.2 below.
[2] EB-2013-0321, Decision with Reasons, dated November 20, 2014 ("EB-2013-0321 Decision"), pp. 88-89.
[3] EB-2013-0321 Decision, pp. 88-89.
[4] The EB-2013-0321 Decision also established the Pension & OPEB Cash Payment Variance Account to record the difference between OPG's actual pension plan contributions and actual OPEB payments for the prescribed

the Interim Account, the OEB stated that "[a]ny future treatment regarding the deferral account would be limited to the outcomes of the generic proceeding as they relate to the accounting or mechanics of recovery, as applicable."[5]

The OEB set OPG's payment amounts based on the "cash" method as a temporary measure, contingent on the outcome of the generic proceeding. The OEB stated that it was "not necessarily permanently moving from an accrual to a cash basis for setting OPG's payment amounts."[6] It also found that "[t]ransition to a different accounting treatment of pensions and OPEBs for OPG, if required, would be addressed by the Board in OPG's next cost of service proceeding, having been informed by the outcomes of the generic proceeding."[7]

By setting payment amounts using the cash amounts and establishing the Interim Account to record the difference between the cash and accrual accounting methods, the OEB effectively deferred a final determination on the rate treatment of OPG's pension and OPEB costs. The deferral of amounts in the Interim Account allowed the OEB to keep the company whole if the generic proceeding determined that the accrual accounting method is appropriate.[8]

The Interim Account does not include the income tax impacts associated with the difference between recovery of the cash amounts and accrual accounting costs.[9] Parties raised the treatment of income tax impacts in submissions on the EB-2013-0321 Draft Payment Amounts

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facilities and such forecast amounts included in the payment amounts. This variance account was most recently continued in EB-2016-0152.

[5] EB-2013-0321 Decision, p. 89. As the OEB had already found that OPG's underlying pension and OPEB costs were prudent, it excluded any further prudence review of the amounts recorded in the Interim Account.

[6] EB-2013-0321 Decision, p. 88.

[7] *Ibid*.

[8] For example, the Report (p. 11) notes that "[v]ariance accounts were used to capture the difference between the cash and accrual methods in order to keep the period open for final adjustments once the outcome of the consultation was known."

[9] As discussed in EB-2016-0152 (Ex. F4-2-1, section 3.2.5) and EB-2013-0321 (Ex. F4-2-1, section 3.3.5) and as reflected in the regulatory income taxes approved in previous OPG payment amounts proceedings that used the accrual accounting method of recovery, pension and OPEB accrual costs are not deductible for income tax purposes under the *Income Tax Act* (Canada), while the cash amounts are deductible. Therefore, OPG will incur incremental income taxes as a result of recovering the accrual accounting costs for pension and OPEB, to the extent these costs are higher than the cash amounts, as there is no incremental income tax benefit (i.e., deduction) available to be passed on to ratepayers in connection with the inclusion of the accrual costs. Since income taxes are based on the revenue that a utility receives through rates, OPG will be subject to these incremental income taxes as it recovers the Interim Account balances.

Order.[10] At that time, the OEB did not determine the mechanism by which the income tax impacts related to the Interim Account would be recovered. Instead, it deferred the issue until "a determination is made regarding the account balance, [at which time] any tax matters can be addressed."[11]

3.2 THE GENERIC CONSULTATION AND NEW OEB POLICY

Following the EB-2013-0321 proceeding, the OEB conducted a generic consultation process (EB-2015-0040) on the regulatory treatment of pension and OPEB costs in rates for all Ontario rate-regulated utilities. As part of the consultation, the OEB solicited several rounds of submissions from utilities and stakeholders and issued the Report on September 14, 2017.

The generic consultation confirmed that the majority of utilities use the accrual accounting method to recover pension and OPEB costs.[12] The few exceptions include utilities using cash payments to plan beneficiaries (i.e. "pay-as-you-go" amounts) as the basis for recovery of non-registered pension plan and OPEB amounts,[13] and one utility using the funding method to recover its registered pension plan costs.[14]

The Report established the OEB's policy that the accrual method is presumptively appropriate for setting rates to recover pension and OPEB costs. The Report states that "[t]he OEB will use the pension and OPEB amounts determined through accrual accounting in rate-setting, unless that method does not result in just and reasonable rates."[15]

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[10] OPG noted that the OEB had consistently included income tax impacts in pension and OPEB-related accounts for OPG in previous proceedings (EB-2013-0321, OPG Response to Intervenor Comments on the Draft Payment Amounts Order, dated December 12, 2014, p. 7).

[11] EB-2013-0321 Payment Amounts Order, p. 6.

[12] EB-2015-0040, KPMG Presentation on P & OPEB Costs – Alternatives Identified, dated July 19-20, 2016, p. 3.

[13] The Report (p. 7) notes that some utilities who do not incur material amounts for OPEB costs may not conduct actuarial valuations for accounting purposes, and therefore the OPEB expense reported on their financial statements may be equivalent to the pay-as-you-go amount.

[14] Hydro One Networks Inc. uses the funding method whereby employer contributions to the pension plan are recovered through rates. (EB-2015-0040, KPMG Presentation on P & OPEB Costs – Alternatives Identified, dated July 19-20, 2016, p.3.) For electricity distributors in Ontario who are members of the OMERS pension plan, the employer contributions made to the plan are equal to the accrual accounting cost (The Report, p. 6).

[15] The Report, p. 8.

The Report observes that "as [the] setting [of] just and reasonable rates is the primary driver of the regulatory treatment of pension and OPEB costs, providing value to customers and assuring fairness to both present and future ratepayers is a necessary component of the regulatory treatment of pension and OPEB costs."[16] Consistent with these principles, the Report established the New Differential Account to track the difference between the amounts in recovered rates (on an accrual basis) and the actual cash payments made by utilities (employer contributions to the pension plan and expenditures paid out to OPEB plan beneficiaries) for all utilities recovering pension and OPEB amounts on an accrual basis, effective January 1, 2018.[17] This account is used to calculate a carrying charge to be credited to customers on the cumulative cash-to-accrual difference.[18] Only the carrying charges applied to the account are subject to disposition.[19]

The Report also clarifies the evidentiary requirements for utilities proposing to remain on an accrual basis, and for those proposing to set rates using a method other than accrual. The OEB determined that utilities in the former group have no special evidentiary burden; utilities currently using the accrual method and proposing to continue using the that method "<u>are not required to justify the use of that method</u>, but must still file the evidence required by the OEB to support the quantum."[20]

In contrast, the Report puts a greater evidentiary burden on utilities that propose to set rates using a method other than accrual. Such utilities are required to "support such a proposal with evidence giving consideration to these factors, and the principles and practices enunciated in [the] Report."[21]

3.3 OEB APPROVAL TO SEEK RECOVERY IN THIS APPLICATION

[16] *Ibid*.
[17] *Ibid*., p. 11.
[18] The Report (p. 10) allows compensation to a utility for cash payments that exceed accrual cost recoveries in circumstances where the financial viability of the utility would be compromised.
[19] The Report (p. 11) provides that this disposition should occur during a utility's cost-based rate application, unless otherwise approved by the OEB.
[20] The Report, p. 8 (emphasis added).
[21] *Ibid*.

In the EB-2016-0152 proceeding to set OPG's payment amounts for 2017 to 2021, OPG proposed that it would be appropriate for the company to seek recovery of the balances in the Interim Account, in its first annual hydroelectric payment amount application. OPG noted, as it did in its submissions in the generic consultation that continued recognition of amounts recorded in the Interim Account as a regulatory asset in OPG's financial statements prepared in accordance with USGAAP requires that the period of deferring amounts recorded in the Interim Account must not exceed five years from the time that they were incurred.[22] As a result, OPG must begin to recover amounts recorded to the Interim Account no later than November 2019, or otherwise be required to write-off the regulatory asset for the affected amounts against net income.[23]

The OEB determined that OPG may seek to recover audited deferral and variance account balances at the same time as its 2019 hydroelectric payment amounts application, including a proposal for the Interim Account and the regulatory accounting method for pension and OPEB costs to be used going forward.[24]

4.0 PROPOSED IMPLEMENTATION OF OEB POLICY

OPG seeks approval to recover the audited balances of the Interim Account as of December 31, 2017 and the income tax impacts associated with recovery of those balances. As set out in Ex. H1-1-1,[25] OPG proposes that the applicable portion of those amounts be included in the requested 2019-2021 deferral and variance account payment riders. Evidence supporting the quantum recorded in the Interim Account is set out in Ex. H1-1-1. The income tax impacts associated with recovery of the December 31, 2017 Interim Account balances are calculated to be approximately $205M over the full recovery period.[26] The payment riders proposed for the period from January 1, 2019 to December 31, 2021 would recover the income tax impacts that

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[22] EB-2016-0152, OPG Reply Argument, p. 214.
[23] *Ibid*.
[24] EB-2016-0152, Decision and Order, dated December 28, 2017, p. 119 and p. 160 ("EB-2016-0152 Decision").
[25] Ex. H1-2-1: Table 1, lines 10 and 14 (regulated hydroelectric) and Table 2, lines 13 and 20 (nuclear).
[26] Ex. H1-2-1: Table 1, line 14 (hydroelectric), and Table 2, line 20 (nuclear). Using the income tax rate of 25%, the total income tax impact is calculated pursuant to the following gross-up formula: $614M * tax rate / (1 – tax rate) = $614M * 0.25 / 0.75 = $204.7M.

OPG will incur due to the Interim Account recoveries in that period, which are calculated to be approximately $77M.[27]

As detailed in Ex. H1-2-1, OPG is proposing to mitigate customer bill impacts by recovering the December 31, 2017 Interim Account balances and associated income tax impacts over an eight-year period beginning on January 1, 2019.

Recovering the Interim Account balance and associated income tax impacts would reconcile the interim reductions to OPG's payment amounts made in the EB-2013-0321 Decision (and continued in the EB-2016-0152 Decision) with the OEB's determination in the Report that accrual accounting is the default basis to recover pension and OPEB costs in rates. Together with the disposition of the Pension & OPEB Cash Payment Variance Account, it would also reconcile historic pension and OPEB costs incurred by OPG with respect to the prescribed facilities with its historic payment amounts. Consistent with this application, the payment amounts proposed in OPG's future cost-based rates applications would reflect pension and OPEB costs calculated pursuant to the accrual accounting method, in accordance with the Report.

OPG has made extensive submissions that consistently support the continued use of the accrual accounting method for recovery of pension and OPEB costs, both in EB-2013-0321 and in EB-2015-0040.[28] Given the OEB's prior findings that the accrual accounting method is presumptively appropriate for pension and OPEB costs, that OPG was not transitioned away from the accrual basis of recovery, and that utilities remaining on the accrual basis are not required to justify the use of that method, OPG has not re-iterated those submissions in this evidence.[29]

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[27] Calculated as $204.7M (see footnote 26) * 3/8.
[28] EB-2013-0321: OPG Argument-in-Chief, dated July 28, 2014, pp. 99-106; and OPG Reply Argument, pp. 172-226. EB-2015-0040: Initial Written Submissions on the Regulatory Treatment of Pensions and Other Post-Employment Benefit Costs, dated July 31, 2015; Pension & OPEB Stakeholder Forum Presentation, dated July 19, 2016; and Submission on Pension and OPEB Cost Recovery, dated September 22, 2016.
[29] Consistent with the EB-2013-0321 Decision, OPG has continued to use the accrual accounting method to track, record and report pension and OPEB costs for regulatory accounting purposes. The OEB has never found that the accrual accounting method for pension and OPEB costs was inappropriate for OPG, nor has it found that payment amounts resulting from the use of that method are not just and reasonable.

Since OPG's currently approved payment amounts were set based on cash amounts for pension and OPEB costs, there will continue to be a discrepancy between the company's payment amounts and the accrual costs incurred by OPG for the prescribed facilities until OPG's next cost-based payment amounts application. To address this ongoing discrepancy, OPG will continue to record amounts to the Interim Account until the effective date of OPG's next cost-based payment amounts order (currently expected to be January 1, 2022) in accordance with the EB-2016-0152 Payment Amounts Order and the Report.[30, 31, 32]

5.0 APPLICATION OF NEW DIFFERENTIAL ACCOUNT TO AMOUNTS RECOVERED FROM THE INTERIM ACCOUNT

This section sets out OPG's proposal for the application of the generic New Differential Account set out in the Report to amounts recovered by OPG from the Interim Account.

According to the Report, recoveries of amounts recorded in interim cash-to-accrual accounts such as OPG's Interim Account are subject to the New Differential Account. The Report provides that, as these recoveries occur and the balances in the interim accounts are drawn down, there would be a corresponding entry in the New Differential Account. As detailed in Appendix C of the Report, this entry would include prospectively applied carrying charges to amounts recovered, as part of a net (credit) balance in the New Differential Account.

As it relates to the operation of the New Differential Account, the Report sets out a policy of general application, subject to the specific circumstances of individual utilities. It states that "[it] is open to panels of the OEB in future rate applications to issue revised accounting orders if the evidence in a particular case requires deviations from this policy."[33]

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[30] As the payment amounts were set using forecast cash amounts for pension and OPEB, OPG also would continue to record differences between forecast and actual cash amounts in the Pension & OPEB Cash Payment Variance Account until the effective date of OPG's next cost-based payment amounts order, in accordance with the EB-2016-0152 Payment Amounts Order, Appendix G., p. 12.

[31] Amounts recorded in the Interim Account effective January 1, 2018 and until the effective date of the next cost-based payment amounts order would not impact amounts, if any, recorded in the New Differential Account during that period. This is because the new account does not apply to amounts recorded in the Interim Account until such time as those amounts are recovered. Based on the proposal in this application, OPG expects that amounts recorded in the Interim Account between January 1, 2018 and the effective date of the next cost-based payment amounts order would be subject to recovery effective after 2021.

[32] Report, p. 22.

[33] *Ibid*., p. 11.

For the reasons set out below, OPG is proposing that recoveries of amounts recorded in the Interim Account as of December 31, 2017 would not be captured in the New Differential Account and therefore not be subject to carrying charges.

5.1 APPLYING THE EB-2013-0321 DECISION

Accounts related to pension and OPEB costs are ultimately governed by the specific OEB payment amount orders and decisions that establish the scope and limits of those accounts.[34] Accordingly, while the Report establishes a policy of general application, the disposition of the Interim Account is subject to the parameters established for OPG's prescribed assets in the applicable payment amount orders and decisions.

When the OEB established the Interim Account in EB-2013-0321, it stated that "[a]ny future treatment regarding the deferral account would be limited to the outcomes of the generic proceedings as they relate to the accounting or mechanics of recovery, as applicable."[35]

The EB-2013-0321 Decision established that OPG is permitted recovery of the Interim Account, to the extent the costs recorded to it are consistent with the regulatory accounting approach and the mechanics of recovery determined in the generic consultation. In effect, the EB-2013-0321 Decision limits the scope of application of the policy in the Report to two governing factors:

(i) selecting the appropriate regulatory accounting approach, and
(ii) identifying the appropriate mechanics of recovery.

The Report addressed both governing factors. It established that accrual accounting is the appropriate regulatory accounting approach and identified that the account can be recovered by way of a rate rider over an approved recovery period.[36]

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[34] OPG has recorded amounts in the Interim Account in accordance with the parameters prescribed for this account in the following OEB decisions and payment amounts orders: EB-2013-0321 (including as continued in EB-2014-0370) and EB-2016-0152.
[35] EB-2013-0321 Decision, p. 89.
[36] Report, p.8 and Appendix C, p. 22, respectively.

In contrast, the recording of amounts in the New Differential Account is a separate issue, distinct from selecting the regulatory accounting approach or the mechanics of recovery. In OPG's view, the requirement to record corresponding amounts in the New Differential Account is a new policy that was not contemplated in EB-2013-0321 and is not applicable to recovery of the amounts recorded in the Interim Account as at December 31, 2017.

If the New Differential Account were applied to the proposed recovery of the amounts recorded in the Interim Account, the company would not recover the full amount of accrual costs for that period. Instead, it would recover a reduced amount, net of carrying charges on amounts that would be recorded in the New Differential Account. OPG believes that such an outcome would be inconsistent with the EB-2013-0321 Decision.

5.2 CONSISTENT AND FAIR APPLICATION OF NEW POLICY

The majority of utilities' rates reflect the recovery of pension and OPEB costs on an accrual basis. As a result, the New Differential Account will begin to track differences between accrual costs recovered in rates and cash payments made by utilities, and accrue carrying costs (as applicable) for these utilities commencing January 1, 2018. For the period prior to January 1, 2018, those utilities were able to recover the full pension and OPEB accrual costs as they did not have an obligation to record differences between cash and accrual methods in an account comparable to OPG's Interim Account and, accordingly, are not subject to the New Differential Account in respect of those differences.

OPG's proposal ensures that OPG receives the same effective treatment as other utilities. If, instead, the New Differential Account were to apply to recoveries of Interim Account balances recorded as of December 31, 2017, then OPG would receive a reduced amount in respect of its pension and OPEB accrual costs for that period. This would result in an inconsistent and unfair application of OEB policy across the regulated utilities, resulting in financial advantage to some and financial disadvantage to OPG.

The scenario in Chart 1 below illustrates how applying the New Differential Account to the recovery of the Interim Account balance would produce inconsistent and unfair financial impacts on similarly situated utilities. This scenario compares two illustrative utilities that are identical except for the funding of pension and OPEB costs in rates:

- Utility A, whose rates were set using the accrual basis for pension and OPEB costs, and
- Utility B, whose rates were temporarily set on the basis of pension and OPEB cash amounts, with a deferral account to capture the difference between the cash amounts and the accrual costs (i.e., an Interim Account), during an illustrative interim period of 2015-2017.

Chart 1: Illustrative Example[37, 38]

Line	Particulars ($M)	2015	2016	2017	2018	2019	2020	2021	Total
	Timing of Recovery:								
1	Utility A Cash Flow - Accrual Costs in Rates	100	100	100	0	0	0	0	300
2	Utility B Cash Flow - Accrual Costs in Riders	0	0	0	100	100	100	0	300
3	Annual Cash Flow Difference (line 1 - line 2)	100	100	100	(100)	(100)	(100)	0	0
4	Cumulative Cash Flow Difference / Interim Account Balance*	100	200	300	200	100	0	0	N/A
5	Annual Interest impact on cumulative cash flow differences due to timing of recovery**	1.7	5.3	8.8	8.8	5.3	1.8	0.0	**31.4**
	New Differential Account:								
6	Annual Cash to Accrual Difference Tracked	0	0	0	100	100	100	0	300
7	Cumulative Cash to Accrual Difference Tracked***	0	0	0	100	200	300	300	N/A
8	Annual Interest impact on cumulative cash to accrual difference due to carrying charges****	0.0	0.0	0.0	1.8	5.3	8.8	**10.5**	**26.3**

Notes
* Prior year Cumulative Cash Flow (line 4) plus current year Annual Cash Flow Difference (line 3)
** [Prior year Cumulative Cash Flow (line 4) plus current year Cumulative Cash Flow (line 4)] / 2 * 3.5% interest rate
*** Prior year Cumulative Account Balance (line 7) plus current year Annual Amount Recorded (line 6)
**** [Prior year Cumulative Account Balance (line 7) plus current year Cumulative Account Balance (line 7)] / 2 * 3.5% interest rate

This scenario demonstrates how differences in timing of recovery of pension and OPEB accrual costs for the interim period and the inconsistent treatment of the New Differential Account would confer two financial benefits on Utility A relative to Utility B: increased cash flow, and lower carrying changes recorded in the New Differential Account.

Inconsistent Cash Flow: As shown in line 4, Utility A has a higher cash flow than Utility B, and therefore, Utility B would incur approximately $30M in interest costs (line 5) that Utility A would not, over the period shown. Although this difference in cash flow, due to the timing of recovery of pension and OPEB accrual costs for the interim period, is a source of relative

[37] The scenario assumes that both utilities:
1) incur the exact same accrual costs and cash amounts each year;
2) received OEB-approved rates effective January 1, 2015;
3) incurred accrual costs that were $100M greater than cash amounts for each of 2015, 2016 and 2017;
4) incur accrual costs equal to cash amounts for each of 2018, 2019 and 2020 (i.e., to focus the financial impact of this example on the treatment of cash-to-accrual differences prior to the January 1, 2018 effective date of the New Differential Account); and
5) incur simple interest equal to the current OEB-prescribed interest rate for construction work in progress (3.35%) for cash flow differences and are subject to interest at this same rate on the cash-to-accrual differences tracked in the New Differential Account.

[38] The scenario assumes that Utility B receives, through a rate rider, $100M per year to recover its December 31, 2017 Interim Account balance over a three-year term from January 1, 2018 through December 31, 2020. The half-year rule is used to calculate interest on amounts arising during a year.

inequality between utilities with the exact same costs, OPG is not proposing that the OEB address this issue.

Inconsistent Carrying Charges: Since Utility B's rates were temporarily set on the basis of cash amounts, it recorded amounts at line 4 in its Interim Account. The December 31, 2017 balance of $300M in the account is recovered through a rate rider ending December 31, 2020 (line 2). Recovered amounts are tracked annually in the New Differential Account (line 6), and carrying charges (line 8) are charged on the cumulative balance (line 7). Over the period in Chart 1, the carrying charges owing to customers from Utility B total over $25M (line 8). Since Utility A was never required to establish an Interim Account (and therefore had no recoverable balance to track in the New Differential Account), only Utility B must pay these carrying charges.

As shown in line 8, annual carrying charges ($10M in this example) in connection with the balance of the Interim Account recovered by the end of 2020 will continue to apply to Utility B for 2021 and beyond. Utility B must continue to pay these annual carrying changes until its cumulative cash payments from January 1, 2018 (the effective date of the OEB's pension and OPEB policy) exceed its cumulative accrual costs by $300M. In effect, until Utility B has paid $300M more toward pension and OPEB than customers have paid the utility for pension and OPEB costs (January 1, 2018 onward), Utility B must continue to pay carrying charges. Utility A has no such requirement and therefore avoids these carrying charges.

OPG's proposal, as set out in Section 5.0, would remedy the inconsistency arising from the application of carrying charges to the Interim Account balance.

The OEB typically applies policies of general application in a manner that is consistent across utilities and, in OPG's view, such consistent application of policy is a key element of fair regulation. In the circumstances, a consistent application of OEB policy would require that OPG should be on equal footing with those utilities for whom the OEB did not establish interim accounts. Accordingly, the recovery of amounts recorded in the Interim Account as of December 31, 2017 should not to be subject to the New Differential Account.