



# Report on the Accounting Cost for Post Employment Benefit Plans in Support of Pension and OPEB Cost Variance Account Calculations

Fiscal Year 2013 and the Period from January 1 to October 31, 2014  
Ontario Power Generation Inc.

Aon Hewitt

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## Introduction

This report summarizes the accounting costs for fiscal year 2013 and the period from January 1, 2014 to October 31, 2014 for the post employment benefit plans sponsored by Ontario Power Generation Inc. ("OPG"). In addition, Aon Hewitt has prepared this report to provide an independent actuary's confirmation of information for the post employment benefit plans sponsored by OPG in relation to the balance in OPG's Pension and OPEB Cost Variance Account ("the Variance Account") as at December 31, 2014. We understand this report is expected to be filed with the Ontario Energy Board ("OEB").

This report covers the following plans sponsored by OPG:

- Ontario Power Generation Inc. Pension Plan ("RPP");
- Ontario Power Generation Inc. Supplementary Pension Plan ("SPP");
- Non-pension Post Retirement Plan which provides other post retirement benefits ("OPRB") including retiree medical, dental, life insurance, and retirement bonus benefits, and
- Post Employment Plan which provides long-term disability benefits ("LTD") including sick leave benefits before LTD begins and the continuation of medical, dental and life insurance while on LTD.

Collectively SPP, OPRB and LTD are known as Other Post Employment Benefits ("OPEB").

The results cover the fiscal year 2013 and the period from January 1, 2014 to October 31, 2014. The results have been developed under Canadian generally accepted accounting principles ("Canadian GAAP") under the former CICA Handbook—Accounting (Part V), Section 3461 ("CICA 3461") and, with the exception of LTD (as outlined on page 7), are the same as the results under US GAAP.

The results in this report do not include amounts related to the benefit plans of the Nuclear Waste Management Organization, which are included in OPG's consolidated financial statements.

Unless otherwise stated, all assumptions, data elements, methodologies, plan provisions, and information about assets reflected in this report are the same as those underlying and/or contained in the December 31, 2012 or the December 31, 2013 disclosure reports ("the Reports") prepared by Aon Hewitt in accordance with US generally accepted accounting principles ("US GAAP") under ASC 715, 712 and 710 for the post employment benefit plans sponsored by OPG. These disclosure reports were dated March 2013 and March 2014, respectively, and are titled as follows:

- US GAAP Accounting Information Non-pension Post-retirement and Post-employment Benefits Plans; and
- US GAAP Accounting Information – Pension Plans.

**Aon Hewitt**

Sincerely,

Aon Hewitt Inc.

[Original Signed By]

Linda M. Byron  
Fellow of the Society of Actuaries  
Fellow of the Canadian Institute of Actuaries

February 2015

Aon Hewitt Inc.

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## Actuarial Report

### Pension and OPEB Cost Variance Account

In March 2011, OPG filed with the OEB a motion to review and vary the OEB's decision, issued in March 2011 under case number EB-2010-0008, with respect to pension and OPEB costs. In June 2011, under case number EB-2011-0090, the OEB established the Pension and OPEB Cost Variance Account for the period from March 1, 2011 to December 31, 2012 in its decision and order granting OPG's motion. In March 2013, under case number EB-2012-0002, the OEB authorized the continuation of the Pension and OPEB Cost Variance Account for the period after December 31, 2012 without a prescribed end date. In December 2014, with the establishment of two new regulatory variance accounts for OPG related to pension and OPEB, under case number EB-2013-0321, the OEB ordered that no new variances between actual and forecast pension and OPEB costs be recorded in the Pension and OPEB Cost Variance Account effective November 1, 2014.

Up to October 31, 2014, the Pension and OPEB Cost Variance Account recorded the difference between actual pension and OPEB costs under Canadian GAAP for OPG's regulated operations and related tax impacts, and those reflected in the regulated prices established by the OEB under case number EB-2010-0008. The forecast pension and OPEB costs for the years ending December 31, 2011 and 2012 reflected in the regulated prices established under case number EB-2010-0008 represent the portion of OPG's total forecast pension and OPEB costs determined in accordance with Canadian GAAP for those years attributable to its nuclear and regulated hydroelectric businesses. These forecast costs were based on calculations prepared by an independent actuary, Mercer (Canada) Limited.

### Results for 2013 and 2014

This report confirms OPG's total actual pension and OPEB costs for the period from January 1, 2013 to December 31, 2013 and the period from January 1, 2014 to October 31, 2014, as determined in accordance with Canadian GAAP, are as follows:

<u>(in Canadian \$ 000's)</u>	<u>January 1 to December 31, 2013</u>	<u>January 1 to October 31, 2014</u>
RPP	\$ 473,282	\$ 439,303
SPP	28,553	21,532
OPRB	257,010	150,546
LTD	<u>17,205</u>	<u>20,117</u>
Total	\$ 776,050	\$ 631,498

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Further details of the OPG-wide costs provided above, by plan, as well as OPG's actual contributions to the RPP fund and benefit payments for OPEB for the periods from January 1, 2013 to October 31, 2014 are provided in Schedules 1 and 2 to this report.

The balance of the Pension and OPEB Cost Variance Account calculated and recorded by OPG as at December 31, 2014 is \$939 million, as reported in the audited schedule of regulatory balances as at December 31, 2014, dated February 18, 2015, prepared by OPG for filing with the OEB. The December 31, 2014 account balance reflects the unamortized portion of the December 31, 2012 balance, as well as additions recorded by OPG during the period from January 1, 2013 to October 31, 2014. Aon Hewitt previously reported on the 2011 and 2012 actual OPG-wide pension and OPEB costs in support of the Pension and OPEB Cost Variance Account balance in the following reports, which were filed by OPG with the OEB under case number EB-2012-0002 (the "2011/2012 Variance Account Reports"):

- "Report on the CICA 3461 (CGAAP) Accounting Cost for Post Employment Benefit Plans in Support of Pension and OPEB Cost Variance Calculations" dated June 2012.
- "Report on the Accounting Cost for Post Employment Benefit Plans for Fiscal Year 2012 and in Support of Pension and OPEB Cost Variance Calculations" dated February 2013.

The pension and OPEB cost variance component of the addition of the Pension and OPEB Cost Variance Account for the fiscal year ending December 31, 2013 and for the period from January 1, 2014 to October 31, 2014 was calculated by OPG by comparing the portion of the above 2013 and 2014 OPG-wide costs under Canadian GAAP attributed to OPG's nuclear and regulated hydroelectric businesses for the corresponding periods to the forecast of such costs included in the regulated prices established by the OEB under case number EB-2010-0008.

## Actuarial Methods and Assumptions

Aon Hewitt confirms that the Canadian GAAP OPG-wide costs for the year ended December 31, 2013 and for the period from January 1, 2014 to October 31, 2014 were determined using the actuarial methodology and accounting standards described below. We furthermore confirm that the methodology under Canadian GAAP is consistent with the methodology as outlined in OPG's application to, and approved by, the OEB under case number EB-2010-0008 and used to determine the forecast pension and OPEB costs reflected in the regulated prices established by the OEB in that proceeding. This methodology is also consistent with that used to determine the actual OPG-wide Canadian GAAP costs for the years ended December 31, 2011 and December 31, 2012 outlined in the 2011/2012 Variance Account Reports.

- Benefit obligations for RPP, SPP and OPRB are determined using the projected benefit method prorated on service;
- Benefit obligations for LTD are determined using the projected benefit method on a terminal basis such that the total estimated future benefit is attributed to the year of service in which a disability occurs;
- The discount rates have been determined in accordance with Canadian GAAP (i.e., CICA 3461). The discount rates have been set with reference to those representative of AA corporate bond yields in Canada having a duration similar to the liabilities of the plans. The December 31, 2012 discount rates were 4.30% per annum for determining the 2013 RPP and SPP cost, 4.40% per annum for determining the 2013 OPRB cost, and 3.50% per annum for determining the 2013 LTD cost. The December 31, 2013 discount rates were 4.90% per annum for determining the January 1, 2014 to October 31, 2014 RPP and SPP cost, 5.00% per annum for determining the January 1, 2014 to October 31, 2014 OPRB cost, and 4.10% per annum for determining the January 1, 2014 to October 31, 2014 LTD cost.

- A building block approach was used in determining the expected long-term rate of return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established using the fund's asset allocations, via a building block approach with proper consideration of diversification and rebalancing. An expected rate of return on assets of 6.25% per annum determined using the above approach was used for determining the 2013 and 2014 RPP costs;
- The best estimate assumptions for base mortality rates reflect OPG's actual experience derived from OPG's historical pensioner data. In addition, in developing costs for 2014, as recommended by us as part of the new comprehensive accounting valuation conducted in 2013, the assumed mortality improvement rates were updated to reflect the improvement scale developed by the Canadian Institute of Actuaries ("CIA") based on a comprehensive study of observed Canadian pensioner experience, as published in the CIA Final Report: Canadian Pensioners' Mortality, which was released on February 13, 2014.
- Other actuarial assumptions are management's best estimate of future events, as determined in consultation with us and as set out in the Reports. These assumptions include the inflation rate and the salary scale increase rate, which were established at 2.00% per annum and 2.50% per annum (plus Promotion, Progression, Merit), respectively, in determining the 2013 and 2014 costs;
- Actuarial gains or losses for RPP, SPP and OPRB have been amortized using the 10% corridor method, except where immediate recognition is required under Canadian GAAP for non-routine events during the year (none during 2013 and 2014);
- Past service costs for RPP, SPP and OPRB have been amortized on a straight-line basis over the expected average remaining service lifetime at the amendment date, except where immediate recognition is required under Canadian GAAP for non-routine events during the year (none during 2013 and 2014);
- For LTD, under Canadian GAAP, the change in the obligation from the beginning of the fiscal year to the end of the fiscal year due to changes in economic assumptions, such as discount rates, is deferred and amortized, and the sum of the following is recognized immediately: (i) the change in the obligation at the end of the year compared to the obligation at the beginning of the year on the same economic basis and (ii) actual benefit payments for the year. In addition, past service costs are also deferred and amortized;
- Expected return on assets and amortization of actuarial gains/losses are based on a market-related value of assets where investment gains and losses on equity assets in excess of an expected return of 6.0% per annum plus the increase in Consumer Price Index are smoothed over five years.

## Schedule 1—Summary of 2013 Canadian GAAP Results

The following table provides a summary of Canadian GAAP results for the period from January 1, 2013 to December 31, 2013 for the post employment benefit plans sponsored by OPG. The net periodic pension/benefit cost for this period was determined based on the balance sheet items at January 1, 2013.

(in Canadian \$ 000s)	RPP	SPP	OPRB	LTD
<b>Accrued Benefit Asset (Liability) as at January 1, 2013</b>				
Accrued Benefit Obligation	\$ (13,614,479)	\$ (293,242)	\$ (2,871,995)	\$ (290,026)
Fair Value of Plan Assets	<u>10,286,143</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficit)	\$ (3,328,336)	\$ (293,242)	\$ (2,871,995)	\$ (290,026)
Unrecognized Past Service Costs (Credits)	0	0	3,973	1,199
Unrecognized Net Actuarial Loss (Gain)	<u>4,518,837</u>	<u>101,341</u>	<u>944,582</u>	<u>57,628</u>
<b>Accrued Benefit Asset (Liability)</b>	<b>\$ 1,190,501</b>	<b>\$ (191,901)</b>	<b>\$ (1,923,440)</b>	<b>\$ (231,199)</b>
<b>Components of Net Periodic Pension/Benefit Cost, January 1, 2013 to December 31, 2013</b>				
Employer Current Service Cost	\$ 287,535	\$ 9,646	\$ 79,804	\$ 24,808
Interest Cost	586,807	12,855	128,334	10,530
Expected Return on Plan Assets	(644,460)	0	0	0
Recognition of LTD Actuarial (Gain) Loss	0	0	0	(21,128)
Amortization of Past Service Cost	0	0	535	393
Amortization of Net (Gain) Loss	<u>243,400</u>	<u>6,052</u>	<u>48,337</u>	<u>2,602</u>
<b>Total Cost</b>	<b>\$ 473,282</b>	<b>\$ 28,553</b>	<b>\$ 257,010</b>	<b>\$ 17,205</b>
<b>2013 Estimated Employer Pension Contributions / Benefit Payments</b>				
Amounts used for developing net periodic pension/benefit cost	\$ 380,000	\$ 7,863	\$ 70,237	\$ 27,933
<b>2013 Actual Employer Pension Contributions / Benefit Payments</b>				
	\$ 300,000	\$ 14,006	\$ 61,613	\$ 25,526



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## Schedule 2—Summary of 2014 Canadian GAAP Results

The following table provides a summary of Canadian GAAP results for the period from January 1, 2014 to October 31, 2014 for the post employment benefit plans sponsored by OPG. The net periodic pension/benefit cost for this period was determined based on the balance sheet items at January 1, 2014.

(in Canadian \$ 000s)	RPP	SPP	OPRB	LTD
<b>Accrued Benefit Asset (Liability) as at January 1, 2014</b>				
Accrued Benefit Obligation	\$ (13,368,826)	\$ (285,169)	\$ (2,439,305)	\$ (267,830)
Fair Value of Plan Assets	<u>10,893,428</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficit)	\$ (2,475,398)	\$ (285,169)	\$ (2,439,305)	\$ (267,830)
Unrecognized Past Service Costs (Credits)	0	0	950	806
Unrecognized Net Actuarial Loss (Gain)	<u>3,492,617</u>	<u>78,721</u>	<u>319,518</u>	<u>44,146</u>
<b>Accrued Benefit Asset (Liability)</b>	<b>\$ 1,017,219</b>	<b>\$ (206,448)</b>	<b>\$ (2,118,837)</b>	<b>\$ (222,878)</b>
<b>Components of Net Periodic Pension/Benefit Cost, January 1, 2014 to October 31, 2014</b>				
Employer Current Service Cost	\$ 196,247	\$ 6,198	\$ 43,017	\$ 9,597
Interest Cost	546,413	11,758	102,469	9,073
Expected Return on Plan Assets	(520,022)	0	0	0
Recognition of LTD Actuarial (Gain) Loss	0	0	0	0
Amortization of Past Service Cost	0	0	100	132
Amortization of Net (Gain) Loss	<u>216,665</u>	<u>3,576</u>	<u>4,960</u>	<u>1,315</u>
<b>Total Cost</b>	<b>\$ 439,303</b>	<b>\$ 21,532</b>	<b>\$ 150,546</b>	<b>\$ 20,117</b>
<b>2014 Estimated Employer Pension Contributions / Benefit Payments</b>	<b>\$ 400,000</b>	<b>\$ 9,278</b>	<b>\$ 63,336</b>	<b>\$ 27,644</b>
Amounts used for developing net periodic pension/benefit cost				
<b>January 1 to October 31, 2014 Actual Employer Pension Contributions / Benefit Payments</b>	<b>\$ 300,000</b>	<b>\$ 12,804</b>	<b>\$ 53,788</b>	<b>\$ 18,355</b>

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