Translation of D-2012-077.docx

[82] **For these reasons, the Board agrees to amend the regulatory accounting convention so that the expenses (charges) related to post-employment benefits are charged to cost of service according to the actuarial method, rather than on the basis of projected cash flows (forecasted cash outflows). The Board agrees that this change will be effective as of October 1 2012, therefore retroactively.**

[83] Gaz Métro also requests the recognition, effective October 1, 2012, of: the opening balance of PTPC (NOTE: passif au titre de prestations constituées = accrued benefit liabilities), four deferral account (NOTE: CFR = deferral account) balances arising from the retrospective application of the change in methodology, as well as the creation of two subsequent deferral accounts .

[84] As shown in Table 1, the net balance of $ 143.8 million of the PTPC that Gaz Métro proposes to recover in rates, effective October 1, 2012, corresponds to the accounting deficit of the plans. This balance is in deficit because, among other things, of the low discount rate used to determine the OTPC (NOTE: l'obligation au titre des prestations constituées = accrued benefit obligations). [footnote 44 in original: Exhibit B-0033, page 22.]

[85] With respect to the unamortized balances, the most important component is the unamortized actuarial loss, totaling $ 107.2 million. Over the past five years, the main sources of losses arising from poor performance of pension funds and from a decrease in the discount rate, which decreased from 6.75% to 5.5%.

[86] It is important to remember that the actuarial assumptions are likely to change in the future. For example, an increase in the discount rate of 1% would result in a decrease in the OTPC of nearly 12%, a net actuarial gain of nearly $ 50 million. [footnote 45 in original: Exhibit B-0033, Annex 2, replies provided by Aon Hewitt.]

[87] As described above, according to the corridor method (NOTE: I think this implies a deferred recognition of some actuarial gains and losses) only the excess of 10% of the highest value of the assets or liabilities of the plan is subject to depreciation. However, even with a systematic amortization, applying the corridor method ensures that the actuarial gains or losses are not always intended to be fully amortized. In other words, it is possible that these actuarial losses and gains are borne by future generations of customers who have not benefited from the services of retired employees.

[88] The Board agrees with S.E. / AQLPA (NOTE: environmental intervenor) in light of the reality of pension funds today, the regulatory treatment must take into account that returns remain very volatile from one year to the other. [footnote 46 in original: Exhibit

CS.É/AQLPA-0010, page 19.] Indeed, in a context of establishing just and reasonable rates, given that the actuarial variances are derived from changes in assumptions and depend on market volatility, the Board does not recognize depreciation expense associated with these accounts, that is to say, the net balance of the PTPC.

[89] The Board considers that the stability of accounting standards and expenses arising for them is important given the impact they have on the stability of rates. Like Gaz Métro, the Board considers that the use of the same accounting conventions for the establishment of rates and statutory financial statements is preferable. The Board considers that it is important to ensure that changes to regulatory accounting standards do not remove it too far from IFRS, in order to avoid a second round of changes that may be required thereafter.

[90] Moreover, in the case of a subsequent transition to the IFRS, Gaz Métro recognizes that some adjustments would be necessary in regard to the treatment of actuarial gains and losses, from past service costs as well as from the expected return on assets. In addition, although the treatment proposed is not in accordance with IFRS, Gaz Métro anticipates that it will retain the regulatory treatment of actuarial gains and losses as prescribed by the American norm as deferred charges. [footnote 47 in original: Exhibit B-0032, pages 21 and 22.]

[91] Since Gaz Métro is entering a period of transition to IFRS, the Board considers as a matter of prudence, there is no reason to allow entry to the rate base of the opening balance of PTPC nor of the requested deferral accounts. Moreover, the Board believes that the recognition of the actuarial gains and losses, as useful to the provision of service, would result in potential rate instability and a result contrary to the public interest, with regard to the economic context marked by a period of transition and uncertainty in accounting standards as well as a current account deficit.

[92] In this regard, the Board notes that Article 5 of the Act provides that:

"In the exercise of its functions, the Authority shall ensure the balance between the public interest, consumer protection and fair treatment of the electricity transmission company and distributors. [...]"

[93] The authors Macaulay and Sprague [footnote 48 in original: RW Macaulay and JLH SPRAGUE, Practice and procedure before administrative tribunals, The Public Interest (Volume 2), Carswell, Toronto, 2004], cite, in regard to the public interest, some decisions of the *Ontario Energy Board:*

> « *The public interest is dynamic, varying from one situation to another, if only because the values ascribed to the conflicting interests alter. It follows that the criteria by which the public interest is served may also change according to circumstances. [footnote 49 in original: Idem, page 8 and 5.] […]*

> *In the opinion of the Board, the public interest can only be more particularly defined by examining the facts and nature of the situation in which the test is to be used. The public interest will consistently take the form of the facts to which it is applied, moulding itself to the specific use to which it is being put. [footnote 50 in original: Idem, page 8 and 6.]* »

[94] The Board believes that, given the current and specific circumstances of this filing, the respect the public interest leads it to adopt the recommended treatment, a treatment that has also has the advantage of avoiding changes to regulatory practices that may change/evolve significantly during the transition to IFRS norms.

[95] **For these reasons, the Board authorizes the creation of the proposed deferral accounts but denies their inclusion in the rate base. The Board also refuses the entry into the rate base of the opening balance of the PTPC.**

[96] Under the first paragraph of Section 49 of the Act, if an asset is not recognized as prudently acquired and useful for the operation of a natural distribution system, it cannot be entered in the rate base of the distributor and therefore, the amortization component associated with this asset cannot be recognized as an expense necessary for the provision of service of natural gas distribution under the second paragraph of the same section.

[97] The Board believes that Gaz Métro is going through a short period of transition towards the IFRS and it is impossible to know at the moment whether the IFRS will eventually allow for the accounting of APR (NOTE: actifs et passifs réglementaires = regulatory assets and liabilities). In this context, the Board believes that there is no reason to allow the amortization expense associated with accounts created outside rate base to be taken into account in the revenue requirement of the distributor. In 2015, after the end of the exemption period granted by the AMF (NOTE: l'Autorité des marchés financiers = Quebec's Financial Markets Regulator/Authority, referred to by the French name, http://www.lautorite.qc.ca/en/index.html), the Board will decide whether or not to include these elements in Gaz Métro's cost of service. **For the reasons discussed above, the Board refuses the inclusion of the component "depreciation expense" associated with the out-of-rate-base deferral accounts on the transition date and at the opening balance of PTPC in the cost of service Gaz Métro.**

[98] **For these reasons, the Board also rejects the inclusion of amortization expense associated with the subsequent out-of-rate-base deferral account to account for actuarial variances in Gaz Métro's cost of service.**

[99] However, the Board considers appropriate a different treatment of the deferral account associated with the amortization of past service costs, since these costs are allowed under U.S. GAAP, as well as the IFRS.

[100] **Thus, the Board approves the inclusion of the amortization expense for subsequent deferral account associated with past service costs in the calculation of Gaz Métro's revenue requirement.**