BOMA INTERROGATORY #29

INTERROGATORY

Ref: Mercer Report, p2

(a) Please provide a copy of the Ontario Minister of Finance's proposed reforms to the funding framework for Ontario registered deferral benefit pension plans.

(b) Have the details of the proposed reform been made available? If so, please provide them. Please provide a copy of the 2015 Quebec registered deferral benefit plan reforms.

(c) Please provide the impact of each of EGD's June 2, 2017 proposed changes (effective January 1, 2018), summarized in Appendix B, Tables 1, 2 and 3, on EGD's 2018 forecast accrued expenses, and forecast cash requirements.

(d) Please show separately the impact on EGD's forecast 2018 accrued expenses and cash requirements from the proposed changes flowing from EGD's regular review of its pension investments (first bullet on p2 of Mercer Report), and the changes that would flow from the Ontario reform proposals, once they have been adopted into law.

(e) Have the Ontario reform proposals been incorporated in legislation/regulation yet? If not, when is it likely that they will become law?

(f) If the Ontario proposed reforms are not yet law, why is EGD proposing to make changes in its funding (cash contributions) prior to the legal requirement to do so?

(g) With respect to adjustments proposed due to EGD's regular review of its pension plan investments, are they done annually? What aspects of the plans are reviewed annually, other than expected returns and discount rates? Why are changes proposed to both expected returns and discount rates? Please show the impact the modifications to the expected returns and discount rates have on EGD's annual accrual expenses and funding obligations in 2018.

(h) Please provide a copy of the ASC 715 (MS GAAP) Actual Valuation Report as of December 31, 2016.

(i) Are EGD's May and June 2017 assumptions likely to be revised prior to January 2018? What is the likely impact, directionally, and in order of magnitude, on the forecast 2018 accrued expenses and cash requirements? Does EGD intend to

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make any changes to its forecast requirements as a result of any revisions to the June assumptions? Please discuss.

(j) Preamble:

> *"The EGD RRP projections are based on the assumption that a new valuation will be filed at December 31, 2017, and that EGD would contribute the minimum amounts prescribed under the new Ontario framework, which we have assumed would be the same as those prescribed by the Supplemental Pension Plan Act and Regulations of Quebec (the "Quebec SPPA")". (Mercer, p5)*

Does EGD intend to file a revised actual valuation by December 31, 2017 with the FSO and the CRA? Why would it finalize payments pursuant to an Act that is not yet in force? Why does Mercer made the assumptions described in the quote above?

RESPONSE

a) Attached are the Ontario Ministry of Finance's May 19, 2017 announcements *(I.D1.EGDI.BOMA.29_Attachment 1.pdf* and *I.D1.EGDI.BOMA.29_Attachment 2.pdf)*

b) A summary of the key funding reforms are:

- **Going-Concern Funding:** Requiring funding on an enhanced going concern basis which includes:
  - shortening the amortization period from the current 15 years to 10 years for funding a shortfall in the plan, and the consolidation of the special payments into a single schedule; and,
  - funding of a reserve within the plan, called a Provision for Adverse Deviation or PfAD.
- **Solvency Funding:** Requiring funding on a solvency basis to the extent that a plan's funded status falls below 85% (from current 100%).

  Benefit Improvements and Contribution Holidays: Providing funding rules for benefit improvements and restricting contribution holidays to improve benefit security.

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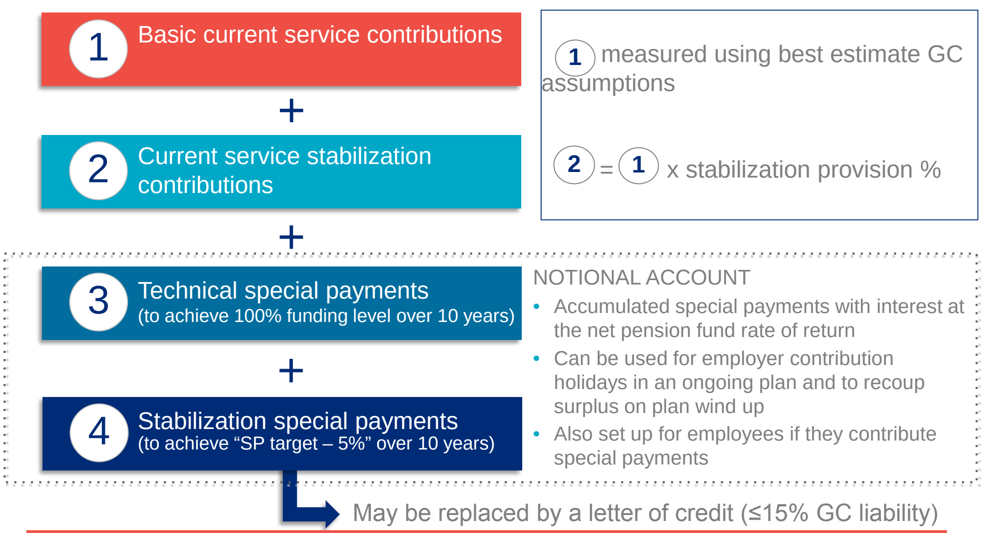
While further details are not yet available, in particular for the PfAD, the funding reforms in Ontario appear to be aligned with those recently adopted in Quebec, with the 85% solvency funding "floor" being a key difference.

Attached is a copy of Quebec's Bill 57, An Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans *(I.D1.EGDI.BOMA.29_Attachment 3.pdf)*.

The main components of contributions under Quebec rules can be summarized as follows:



where the stabilization provision (SP) target percentage is based on two factors as set out in the table below:

SP Target %	Asset / Liability Duration Ratio				
% of Variable Income Securities	0%	25%	50%	75%	100%
0%	12	10	8	6	5
20%	14	12	10	8	6
40%	16	14	12	10	8
50%	17	15	13	11	9
60%	19	17	15	13	11
70%	22	20	18	16	14
80%	24	22	20	18	18
100%	27	25	23	21	20

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c) The impact of reflecting each of EGD's June 2, 2017 proposed changes (effective January 1, 2018), summarized in Appendix B of the Mercer report (Exhibit D1, Tab 5, Schedule 1, Appendix 1, Pages 11 to 13) is a reduction to EGD's 2018 forecast accrual expense by $0.05 million, and a reduction to EGD’s 2018 forecast cash requirement by $1.40 million.

d) *Impact of Changes in Asset Allocations:* The impact from the investment mix changes flowing from the pension investment review is a reduction to EGD's 2018 forecast accrual expense by $5.08 million, and a reduction to EGD’s 2018 forecast cash requirement by $2.07 million.

   Impact of Changes in Funding Framework: The impact from the anticipated changes to the Ontario funding framework is an increase to EGD’s 2018 forecast accrual expense by $0.06 million, and a reduction to EGD’s 2018 forecast cash requirement by $17.68 million.

e) The Ontario reform proposals have not yet been incorporated into legislation. The Ministry of Finance announcement earlier this year stated that the government intends to introduce legislation in the fall of 2017 to enable the announced changes.

f) EGD is not proposing to make changes to its funding (cash contributions) prior to the legislative authority to do so. EGD will continue to fund the pension plan based on current legislation and the latest filed valuation report until the next valuation report is filed. However, EGD expects the funding reforms will be passed into law in the fall of 2017 and the most likely outcome is that EGD will file a new valuation report on or before September 30, 2018 with an effective date of December 31, 2017. Upon filing of a new valuation report, a true-up would be made for any difference between amounts contributed prior to the filing and amounts set out in the new report. Thus, EGD’s best estimate of 2018 funding is based on the proposed funding reforms.

g) EGD typically conducts a formal review of its pension plan asset mix approximately every three to five years.

   All economic and demographic assumptions that affect the cost of the plans are reviewed annually.

   Accounting discount rates (i.e., those summarized on page 4 of the Mercer Report and used in the measurement of forecasted accrual expense) are based on market yields on high-quality corporate bonds. The yields on such bonds are sensitive to changes in the underlying economic environment and therefore change frequently (sometimes significantly). Changes are proposed to accounting discount rates in order to capture the most recent information regarding market yields on high-quality corporate bonds.

The accounting discount rates are not affected by the proposed modifications to pension plan asset mix.

Funding discount rates (i.e., the rate of 6.00% for the EGD RPP on page 7 of the Mercer Report, which is used in the determination of forecasted cash requirement) are based on long-term best estimates of a pension plan's net investment return, less a margin for adverse deviation. Funding discount rates depend on a plan's target asset allocation, expectations regarding capital markets, and expected plan expenses. Changes are proposed to the EGD RPP funding discount rate in order to capture proposed changes to the plan's target asset mix (these changes were subsequently approved and adopted by Enbridge in their Statement of Investment Policies and Procedures as well as current capital market expectations). Please refer to the response to part (d) of this Interrogatory for the impact that the modifications to the pension plan asset mix have on forecasted cash requirements.

The expected return on asset assumptions (i.e., those summarized on page 3 of the Mercer Report and used in the measurement of forecasted accrual expense) are based on management's best estimate of long-term net investment return. Expected return on assets assumptions depend on a plan's target asset allocation, expectations regarding capital markets, and expected plan expenses. Changes are proposed to the expected return on assets assumptions in order to capture proposed changes (subsequently approved and adopted as noted earlier) to the pension plans' target asset mixes, as well as current capital market expectations. Please refer to the response to part (d) of this Interrogatory for the impact that the modifications to the pension plan asset mix have on accrual expense.

h) Attached is the requested report (I.D1.EGDI.BOMA.29_Attachment 4.pdf).

The forecasts are not updated as they employed the best available information at the time they were prepared. Under EGD's current custom IR plan, there is a variance account to capture any variance between actual accrual based pension and OPEB costs versus forecasts in rates. The actual 2018 accrual based pension costs are finalized in January 2018.

i) Based on information known today, the most likely outcome is that EGD will file a new valuation report with FSCO and CRA with a valuation effective date of December 31, 2017. That valuation would reflect funding rules that are in force at that time (it is expected that the new funding rules will be enacted in the fall of 2017). EGD's contributions for 2018 will most likely then be based on the funding requirements set out in that new valuation report

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To provide a best estimate of EGD's contributions for 2018, Mercer made assumptions based on the best information available including the most likely filing scenario and anticipated funding reforms.

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