

April 12, 2017

VIA RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2016-0152 – Amended Undertaking Response J10.7

Enclosed is an amendment to Undertaking Response J10.7. The amendment relates to the correction noted at Tr. Vol. 21, p.1, line 28, and p. 2, lines 1-27 . OPG has submitted this document through the Regulatory Electronic Submissions System and is providing fourteen (14) paper copies.

Yours truly,

[Original signed by]

Barbara Reuber

cc: John Beauchamp (OPG) via e-mail
Charles Keizer (Torys) via e-mail
Crawford Smith (Torys) via e-mail

1 **UNDERTAKING J10.7**

2
3 **Undertaking**

4
5 Review of page 6 of SEC's compendium K10.5, and confirm if OPG agrees with
6 numbers and calculations.

7
8
9 **Response**

10
11 OPG's response to this undertaking is limited to an assessment of the input values and
12 mechanical accuracy of calculations in Ex. K10.5, page 6 (the "SEC Scenario"). The
13 SEC Scenario is a simplistic document prepared on a selective basis, and OPG does
14 not believe that it represents a realistic forecast of the trajectory of OPG's revenues or
15 costs during the 2017-2021 period.

16
17 **OM&A Corrections**

18 The SEC Scenario includes actual 2016 OM&A. SEC has used a 2016 actual OM&A
19 value of \$325M, as reported in note 15 of OPG's audited consolidated financial
20 statements published on March 10, 2017. As OPG witnesses informed SEC during
21 cross-examination, the financial statements are not reported on the same basis as
22 otherwise filed with the OEB.¹ As a result, the 2016 actual OM&A value must be
23 corrected to be consistent with the OEB-approved OM&A as used elsewhere in SEC
24 Scenario. The OM&A as reported in the financial statements excludes IESO non-energy
25 charges, which are included in the OEB-approved OM&A, but are presented as a
26 reduction to revenue for financial statement reporting purposes. Correcting for this
27 increases 2016 actual OM&A value by approximately \$11.5M. After this correction, the
28 2016 actual OM&A value would be \$336.5M.

29
30 The SEC scenario adds one decimal point to the OM&A Escalation Index value (e.g.,
31 moving from 2.1% to 2.06% in 2016). OPG does not object to this adjustment, but notes
32 that it appears to be inconsistent with the OEB's methodology used to calculate the
33 inflation index, which rounds the value to a single decimal. However, since the effect of
34 SEC's adjustment is immaterial, OPG does not propose a correction.

35
36 **CRVA Amounts in Capital Additions**

37 SEC has removed forecast amounts for projects that OPG has identified as related to
38 projects that may be eligible to be recorded to the Capacity Refurbishment Variance
39 Account ("CRVA"), as identified in OPG's response to Ex. L-11.1-15 SEC-095. OPG
40 believes that this exclusion of CRVA-related in-service capital amounts is inappropriate.

41

¹ Transcript, Day 10, page 64, lines 22-28.

1 OPG has stated that it does not believe that the CRVA should operate in such a manner
2 as to allow it to recover costs associated with CRVA-eligible projects in payment
3 amounts and then to recover those same costs again through disposition of the CRVA.²
4 OPG's proposed approach to ensuring that no "double recovery" takes place is detailed
5 in Ex. H1-1-2.

6
7 Since there would be no "double recovery" in connection with the recovery of amounts
8 recorded in the CRVA under OPG's proposal, there is no basis on which forecast
9 CRVA-eligible in-service additions should be excluded from OPG's costs for the
10 purpose of the SEC Scenario. Capital investments related to such projects are part of
11 OPG's capital program and should be included, as they would be in a cost of service
12 rate setting (which the SEC Scenario attempts to emulate). OPG has corrected the SEC
13 Scenario by re-inserting the CRVA-related in-service amounts in the 2017-2021 period
14 that were removed by SEC.

15 16 **Production Forecast Amounts**

17 If the SEC Scenario is intended to approximate the financial performance of OPG's
18 regulated hydroelectric facilities during the 2017-2021 period, the major inputs to the
19 scenario should reflect the most current information available on the record or through
20 OPG's public filings. SEC has inserted certain 2016 actual values from OPG's 2016
21 financial statements, but has not included the 2016 actual production.

22
23 OPG has corrected the SEC Scenario by including the 2016 actual production value
24 found in OPG's public financial filings, as well as the forecast regulated hydroelectric
25 production values (before SBG) per the 2017-2019 Business Plan (Ex. N1-1-1,
26 Attachment 1, page 5). While the approved payment amounts (i.e., the "going in rates")
27 were based on annual production of 33 TWh, the current business plan includes specific
28 annual forecast amounts for the 2017-2021 period. The reduced production forecast in
29 the business plan is primarily due to operational factors, and not to lower water flows.
30 As such, OPG does not expect to recover the resulting losses in the Hydroelectric
31 Water Conditions Variance Account.

32
33 The 2017-2021 Business Plan production forecast represents a more accurate view of
34 OPG's production during the 2017-2021 period than the forecast prepared for 2014 and
35 2015 period, as filed in EB-2013-0321. Since OPG's payments are 100% variable, this
36 reduced production relative to the amount on which payment amounts were approved,
37 will constitute a significant challenge for OPG during the IR period.

38 39 **Deficient Revenue during the IR Period**

40 Attachment 1 to this undertaking reflects the corrections described above. The net effect
41 of these corrections is a "prediction" in the SEC Scenario that OPG's revenues will be
42 insufficient by \$28M across the 2017-2021 period. Notwithstanding OPG's objections to

² Transcript, Day 10, page 33, lines 6-7.

1 the relevance of the SEC Scenario in an IRM proceeding, the directional implication of
2 the corrected scenario is that OPG will be challenged to achieve its business plan under
3 the payment amounts proposed in this application.
4

Attachment 1 - OPG Hydroelectric Cost Model (J10.7)

Component	2014-2015							2017-2021 Totals	Comparison with SEC Scenario	Notes (Changes Relative to K10.5, Page 6)
	OEB									
	Approved	2016	2017	2018	2019	2020	2021			
	a	b	c	d	e	f	g	h	i	
1 Gross Assets	9,290.2	9,369.2	9,551.2	9,729.2	9,915.2	10,126.2	10,321.2			
2 Accum. Depreciation	1,813.9	1,958.1	2,105.0	2,254.7	2,407.3	2,563.1	2,721.9			
3a Net Fixed Assets	7,476.3	7,411.1	7,446.2	7,474.5	7,507.9	7,563.1	7,599.3			
3b Working Capital & Cash Working Capital	31.4	31.4	31.4	31.4	31.4	31.4	31.4			
3c Net Rate Base	7,507.7	7,442.5	7,477.6	7,505.9	7,539.3	7,594.5	7,630.7			
4 Weighted Average Depreciation Rate		1.54%	1.54%	1.54%	1.54%	1.54%	1.54%			
5 Expected Capital Additions		79.0	182.0	178.0	186.0	211.0	195.0			2017-2021 in-service additions as shown in Ex. L.11.1-1 SEC-095.
6 I factor		N/A	1.80%	1.80%	1.80%	1.80%	1.80%			
7 X-Factor		N/A	0.30%	0.30%	0.30%	0.30%	0.30%			
8 OM&A Escalation Index		2.06%	2.25%	2.25%	2.25%	2.25%	2.25%			
<i>Costs Associated with Operations</i>										
9 GRC	350.6	350.6	346.0	352.6	349.1	334.7	330.5	1,712.9	(66.6)	Varies with on revised production (reducing GRC cost)
10 OM&A	334.9	336.5	343.1	349.8	356.6	363.5	370.6	1,783.5	31.6	Adjusted to reflect 2016 actual IESO non-energy charges
11 Total Ops Costs	685.5	687.1	689.1	702.4	705.6	698.3	701.1	3,496.5	(34.9)	
<i>Costs Associated with Capital</i>										
12 Depreciation/Amortization	143.3	144.2	147.0	149.7	152.6	155.8	158.8	763.8	28.6	Varies with changes to capital amounts
13 Cost of Debt	199.4	197.7	198.6	199.4	200.3	201.7	202.7	1,002.8	51.3	Varies with changes to capital amounts
14 ROE	315.2	312.5	313.9	315.1	316.5	318.9	320.4	1,584.9	82.6	Varies with changes to capital amounts
15 PILs	78.6	77.9	78.3	78.6	78.9	79.5	79.9	395.2	14.6	Varies with changes to capital amounts
16 Total Capital Related Costs	736.5	732.3	737.8	742.8	748.3	755.9	761.8	3,746.6	177.0	
17 Total Costs	1,422.0	1,419.3	1,426.9	1,445.2	1,453.9	1,454.2	1,462.9	7,243.1	142.1	
18 Less Other Revenues	85.7	65.4	65.4	65.4	65.4	65.4	65.4	327.0	(101.5)	2016 value corrected as per testimony (EB-2016-0152, Transcript, Day 21, page 2)
19 Net Revenue Requirement	1,336.3	1,353.9	1,361.5	1,379.8	1,388.5	1,388.8	1,397.5	6,916.0	(243.5)	
20 Payment Amount	\$41.09	\$41.09	\$41.71	\$42.33	\$42.97	\$43.61	\$44.27			
21 Production (TWh)	33.0	33.0	32.6	33.2	32.9	31.5	31.1			2017-2021 production amounts per Ex. N1-1-1, Attachment 1, page 5
22 Revenues	1,356.0	1,356.0	1,358.5	1,405.1	1,411.8	1,374.1	1,377.0	6,926.5	(165.2)	
23 Insufficient/Excess Revenues		2.0	(3.0)	25.3	23.2	(14.7)	(20.4)	10.5	(408.7)	
24 Cost-Based Payment Amount			\$41.80	\$41.57	\$42.26	\$44.08	\$44.92			
25 Difference			-\$0.09	\$0.76	\$0.71	-\$0.47	-\$0.66			
26 Insufficient/Excess Revenues			-3.0	25.3	23.2	-14.7	-20.4			
27 Percent			-0.22%	1.84%	1.67%	-1.06%	-1.46%			