

UNDERTAKING J20.13

Undertaking

TO PROVIDE THE CRVA AMOUNTS FUNDED IN RATES IN 2014 AND 2015 FOR THE WATER AND SEWER PROJECT

Response

The average annual amount funded in the EB-2013-0321 nuclear payment amounts for the Water and Sewer Project is \$3.8M, as shown on line 8 of Chart 1 below.¹ This amount is determined based on in-service additions totaling \$27.2M and the resulting net plant rate base of \$20.8M for 2014 and \$26.4M for 2015 reflected in the EB-2013-0321 payment amounts.² The EB-2013-0321 payment amounts were effective November 1, 2014.

**Chart 1
 EB-2013-0321 Reference Plan Amount for the Water and Sewer Project**

Line No.	\$M	2014	2015	Avg. Annual Amounts
		(a)	(b)	(c) = (a) + (b) / 2
	Forecast Capital Costs:			
1	Forecast Net Plant Rate Base ¹	20.8	26.4	
2	Weighted Average Cost of Capital ²	6.86%	6.85%	
3	Cost of Capital (line 1 x line 2)	1.4	1.8	1.6
4	Forecast Depreciation ¹	0.4	0.6	0.5
5	Forecast Income Tax Impacts ³	0.4	0.6	0.5
6	Total Forecast Capital Costs (line 3 through line 5)	2.3	3.0	2.6
7	Forecast Non-Capital Costs	2.4	-	1.2
8	Revenue Requirement (line 6 + line 7)	4.7	3.0	3.8

¹ As shown in EB-2013-0321 Ex. L4.9-1 Staff-48 Chart 1 and EB-2016-0152 Ex. L-9.1-1 Staff-210 Table 1.

² From EB-2013-0321 Payment Amounts Order, App. A, Table 6b, col. (c), line 6.

³ Calculated as: ((line 1 x 45% x 9.30%) + line 4) x 25% / (1-25%).

¹ For consistency with other interrogatory responses, the revenue requirement impacts provided throughout this response do not reflect capital cost allowance (“CCA”) tax deductions.

² The underpinning in-service additions, by year, were \$5.0M in 2012 (actual), \$10.0M in 2013 (forecast) and \$12.2M in 2014 (forecast), as shown at EB-2013-0321 Ex. D2-2-1, section 7.2.2 and EB-2013-0321 Ex. D2-2-1, Table 3, line 4, cols. (k) and (l).

1 As at December 31, 2015, actual capital in service amounts totaled \$43.7M (\$5.0M in
2 2012, \$15.8M in 2013, and \$22.9M in 2014).³ The net plant rate base amounts for 2014
3 and 2015 based on these actual in-service additions are \$31.6M and \$41.8M (Ex. L-9.1-
4 1 Staff-210 Table 1).

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6 The full revenue requirement impact of the Water and Sewer Project actual in-service
7 capital from 2012 to October 31, 2014 was recorded in the Capacity Refurbishment
8 Variance Account (“CRVA”), as the EB-2010-0008 payment amounts did not reflect any
9 amounts for this project. For the period from November 1, 2014 to December 31, 2015,
10 CRVA additions for the project were recorded relative to the annual reference value of
11 \$3.8M shown in Chart 1.

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13 Amounts recorded in the CRVA to December 31, 2014 based on the above actual and
14 reference amounts were approved by the OEB through the EB-2013-0321 and EB-
15 2014-0370 proceedings. OPG is requesting the disposition of the \$2.5M debit amount
16 for the project recorded in the CRVA during 2015, as part of this Application. The
17 derivation of the \$2.5M debit addition is shown in Chart 2 below. This amount forms part
18 of the 2015 nuclear CRVA additions detailed in Ex. H1-1-1 Table 11, as totaled at
19 line 34 for the capital portion and line 17 for the non-capital portion of that table.

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³ The 2012 in-service amount can be found at EB-2013-0321 Ex. D2-2-1 Section 7.2.2, line 16; 2013 in-service amount can be found at EB-2013-0321 Ex. L-9.1-17 SEC-132 Att. 1, Table 12a, Table to Note 1. Note ++ and EB-2013-0321 Ex. L-4.7-2 AMPCO-020 (g); 2014 in-service amount can be found at EB-2016-0152 Ex. L-2.2-1 Staff-008 (a).

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Chart 2
2015 CRVA Addition – Water and Sewer Project

Line No.	\$M	2015
	Capital Addition to Variance Account	
1	Forecast Cost of Capital Amount ¹	1.6
2	Actual Net Plant Rate Base ²	41.8
3	Weighted Average Cost of Capital ³	6.85%
4	Actual Cost of Capital (line 1 x line 2)	2.9
5	Cost of Capital Variance (line 4 - line1)	1.2
6	Forecast Depreciation ¹	0.5
7	Actual Depreciation	1.6
8	Depreciation Variance (line7 - line 6)	1.1
9	Net Increase in Regulatory Taxable Income ⁴	1.8
10	Income Tax Rate	25.00%
11	Income Tax Variance (line 9 x line 10 / (1-line 10))	0.6
12	Capital Addition to Variance Account Before Adjustment (line 5 + line 8 + line 11)	2.9
	Non-Capital Addition to Variance Account	
13	Forecast Non-Capital (OM&A) Costs ¹	1.2
14	Actual Non-Capital (OM&A) Costs	-
15	Non-Capital Addition to Variance Account Before Adjustment (lines 14 - line 13)	(1.2)
16	Less: EB-2013-0132 Impact Statement (Ex. N1) Adjustment	(0.8)
17	Total Addition to Variance Account (line 12 + line 15 - line 16)	2.5

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¹ From Chart 1, col. (c)

² As shown in Ex. L-9.1-1 Staff-210, Table 1

³ From EB-2013-0321 Payment Amounts Order, App. A, Table 6b, col. (c), line 6.

⁴ Calculated as: line 2 x 45% x 9.30%, less Chart 1, col. (b) line 1 x 45% x 9.30%, plus line 8

The proposed rate base for the 2017-2021 IR Term reflects the above actual in-service amounts for the project to the end of 2015 as well as a forecast of \$3.7M in close out capital costs in 2016 (Ex. D2-2-10 Table 2, line 4, col. (k)).

As discussed during the hearing, like other Facilities and Infrastructure Projects, the initial estimates for the Water and Sewer Project were put together prior to engineering completion (Tr. Vol. 3, p. 13). The variances in the project costs were driven by three technical issues encountered while executing the project: (1) change in railway crossing methodology due to existing soil conditions, (2) revised excavation protocol, and (3) revised routing of the sewage and firewater line. Detailed explanations of the project cost variances are outlined in Ex. D2-2-10, Section 2.4.5.2. As the final cost of the project is directly reflective of the work actually required to complete the prerequisite project for the DRP, OPG believes that the full costs for the project were prudently incurred.