Board Staff Interrogatory #146

Ref: Ex. H1-T2-S1

Issue Number: 10.3
Issue: Is the disposition methodology appropriate?

Interrogatory

OPG proposes to amortize the balance of $412.8M in the Tax Loss Variance Account over a 46-month period from March 1, 2011 to December 31, 2014 to lessen the impact on ratepayers. Why is OPG not proposing the same approach to lessen the impact on ratepayers regarding the disposition of another large balance of $315.3M in the Bruce Lease Net Revenues Variance Account?

Response

The setting of amortization periods for accounts with large balances necessarily involves a balancing of the potential impact on ratepayers against the desire to clear the balances in the account in a timely fashion. Given that OPG's Application seeks an average increase of 6.2 per cent, representing an increase of approximately 1.7 per cent on the typical residential customer's bill, OPG did not believe that extending the amortization period for the Bruce Lease Net Revenues Variance Account was necessary.

Board Staff Interrogatory #147

Ref: Ex. H1-T2-S1

Issue Number: 10.3
Issue: Is the disposition methodology appropriate?

Interrogatory

OPG is proposing to clear its deferral and variance account balances covering a three-year period from 2008 to 2010, which consists of audited account balances for 2008 and 2009 and forecasted balances for 2010.

a) Please provide a precedent(s) for rate-regulated entities whereby the balances of their deferral and variance accounts were approved on a forecast basis by the Board.

b) OPG has indicated that deviations between actual and projected values will be captured in the Hydroelectric and Nuclear Deferral and Variance Over/Under Recovery Variance Accounts for subsequent true-up. How is the added complexity of truing-up all account balances administratively simple and verifiable?

c) The Board generally requires deferral and variance account balances sought for disposition to be supported by audited financial statements. In Ontario Regulation 53/05, several account balances of OPG approved for disposition by the OEB were required to be based on "…the audited financial statements approved by the board of directors of Ontario Power Generation Inc." [5.1(1), 6(2) 5, 6(2)7] However, the 2010 account balances proposed for disposition were not supported by audited financial statements. In the absence of such independent audit assurance, why should the OEB approve the 2010 balances?

Response

a) The Purchase Gas Variance Accounts used by the regulated gas utilities.

b) The differences between the actual and forecast deferral and variance account balances as at December 31, 2010 will be reviewed as part of the audit of OPG's annual consolidated financial statements for 2010 (the results of which will be finalized after December 31, 2010).

These differences will be transferred into a single account for each of nuclear and regulated hydroelectric. The OEB will only have to review these single accounts, which will be proposed for clearance in a subsequent proceeding, as opposed to multiple accounts, when addressing activity in the period prior to the 2011 – 2012 test period. This should simplify the review process.

Also, the balances in the other variance and deferral accounts will only reflect activity post December 31, 2010, rather than for both before and after that date. This will also simplify the review process.

c) In OPG's view the OEB should approve the 2010 balances for the following reasons:

- Like many other items in the revenue requirement, the balances represent OPG's best forecast as supported by its written evidence and the testimony of its witnesses.

- It allows the recovery of the 2010-related balances to begin in 2011 rather than putting this recovery off into the future;

- Any deviation between the actual 2010 balance and the balance approved for recovery via the payment riders will be captured in the Regulated Hydroelectric and Nuclear Deferral and Variance Account Over/Under Recovery Variance Account for subsequent true-up;

- The bulk of the changes to these balances in 2010 represent amortization as approved by the OEB in EB-2007-0905/EB-2009-0174 and additions to the Tax Loss Variance Account, which is a determined rather than forecast amount.

- It reduces inter-generational equity concerns and provides a better matching of revenues and costs.

Board Staff Interrogatory #148

Ref: Ex. H1-T2-S1

Issue Number: 10.3
Issue: Is the disposition methodology appropriate?

Interrogatory

Please recast the information in Ex. H1/Tab2/Sch1 and Tables 1 and 2 based on the clearing of the account balances as of December 31, 2009 and the proposed disposition rate riders for nuclear and hydroelectric.

Response

The requested information, including disposition rate riders, has been recast in the attached Tables 1 and 2 using the account balances as of December 31, 2009 as per Ex. H1-T1-S1, Table 1, column (c). OPG notes that the question does not take into account the continuing amortization of the December 31, 2009 nuclear balances that will occur from January 1, 2010 – February 28, 2011 as a result of the nuclear rate rider continuing pursuant to the OEB's Decision in EB-2009-0174. Therefore, the requested rate riders calculated in Tables 1 and 2 exceed the actual riders that would be necessary to recover the December 31, 2009 nuclear balances over the period March 1, 2011 and December 31, 2012.

OPG also notes that the extended 46-month recovery period for the Tax Loss Variance Account proposed in its pre-filed evidence was chosen to reduce customer impacts, as stated in Ex. H1-T2-S1, page 5, lines 10-12. As such, the recovery period for the Tax Loss Variance Account is directly linked to the total amount to be recovered. Therefore, if the total amount to be recovered is reduced, the recovery period should also be shortened.

Numbers may not add due to rounding.

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L-01-148
Attachment 1
Table 1

Table 1

Calculation of Deferral and Variance Account Recovery Rate Riders - Regulated Hydroelectric

Line No.	Account Description	Balance at December 31, 2009 (Note 1)	Amortization Period (Months)	Amortization 2011 (Note 2)	Amortization 2012 (Note 3)	Test Period Recovery Amount / Rider ((c)+(d))	Balances at Dec. 31, 2009 Not Amortized ((a)-(e))
		(a)	(b)	(c)	(d)	(e)	(f)
	Regulated Hydroelectric:						
1	**Hydroelectric Water Conditions Variance ($M)**	(55.3)	22	(25.1)	(30.1)	(55.3)	0.0
2	**Ancillary Services Net Revenue Variance - Hydroelectric ($M)**	(16.0)	22	(7.3)	(8.7)	(16.0)	0.0
3	**Income and Other Taxes Variance ($M)**	(0.3)	22	(0.1)	(0.1)	(0.3)	0.0
4	**Tax Loss Variance ($M)**	47.4	46	10.3	12.4	22.7	24.7
5	**Interim Period Shortfall (Rider D) ($M)**	(2.2)	22	(1.0)	(1.2)	(2.2)	0.0
6	**Over/Under Recovery Variance - (2010) ($M)**	0.0	22	0.0	0.0	0.0	0.0
7	**Total ($M)**	(26.3)				(51.0)	24.7
8	**2011 Production (March 1 - December 31) (TWh)**					16.3	
9	**2012 Production (TWh)**					19.0	
10	**Total Forecast Production (TWh)**					35.3	
11	**Regulated Hydroelectric Payment Rider ($/MWh)**					(1.45)	
	(line 7 / line 10)						

Notes:

1 Amounts are as per Ex. H1-T1-S1, Table 1, Column (c) in EB-2010-0008.

2 Column (a) amount X 10 months / amortization period in column (b).

3 Column (a) amount X 12 months / amortization period in column (b).

Numbers may not add due to rounding.

Table 2

Calculation of Deferral and Variance Account Recovery Rate Riders - Nuclear[1]

Line No.	Account Description	Balance at December 31, 2009 (Note 2)	Amortization Period (Months)	Amortization 2011 (Note 3)	Amortization 2012 (Note 3)	Test Period Recovery Amount / Rider ((c)+(d))	Balances at Dec. 31, 2009 Not Amortized ((a)-(e))
		(a)	(b)	(c)	(d)	(e)	(f)
	Nuclear:						
1	**Pickering A Return To Service Deferral ($M)**	81.8	12	81.8	0.0	81.8	0.0
2	**Nuclear Liability Deferral ($M)**	86.2	22	39.2	47.0	86.2	0.0
3	**Nuclear Development Variance ($M)**	(55.6)	22	(25.3)	(30.3)	(55.6)	0.0
4	**Transmission Outages and Restrictions Variance ($M)**	0.7	22	0.3	0.4	0.7	0.0
5	**Ancillary Services Net Revenue Variance - Nuclear ($M)**	(0.6)	22	(0.3)	(0.3)	(0.6)	0.0
6	**Capacity Refurbishment Variance ($M)**	(2.9)	22	(1.3)	(1.6)	(2.9)	0.0
7	**Nuclear Fuel Cost Variance ($M)**	(20.9)	22	(9.5)	(11.4)	(20.9)	0.0
8	**Bruce Lease Net Revenues Variance ($M)**	327.9	22	149.0	178.8	327.9	0.0
9	**Income and Other Taxes Variance ($M)**	(20.5)	22	(9.3)	(11.2)	(20.5)	0.0
10	**Tax Loss Variance ($M)**	249.0	46	54.1	64.9	119.1	129.9
11	**Interim Period Shortfall (Rider B) ($M)**	4.7	22	2.2	2.6	4.7	0.0
12	**Over/Under Recovery Variance - Nuclear (Rider A&C) ($M)**	7.7	22	3.5	4.2	7.7	0.0
13	**Over/Under Recovery Variance - (2010) ($M)**	0.0	22	0.0	0.0	0.0	0.0
14	**Total ($M)**	657.5		284.4	243.1	527.6	129.9
15	**2011 Production (March 1 - December 31) (TWh)**					40.3	
16	**2012 Production (TWh)**					50.0	
17	**Total Forecast Production (TWh)**					90.3	
18	**Nuclear Payment Rider ($/MWh)** (line 14 / line 17)					5.84	

Notes:

1 The calulations do not consider the impact of ongoing amortization of a portion of balances column (a) that continues through current Rider A during 2010 and Jan & Feb 2011.
2 Amounts are as per Ex. H1-T1-S1, Table 1, Column (c) in EB-2010-0008.
3 Column (a) amount X 10 months / amortization period in column (b).
4 Column (a) amount X 12 months / amortization period in column (b), with the exception fo PARTS which is amortized over the 12 months of 2011.

PWU Interrogatory #025

Ref: Ex. H1-T1-S1, page 6 states that tax losses were allocated to hydroelectric and nuclear based on the proportion of requirement reduction incorporated into the EB-2007-0905 Payment Order for each business.

Issue Number: 10.3
Issue: Is the disposition methodology appropriate?

Interrogatory

a) OPG used certain methodologies to derive distinct allowances for PILs for each business, suggesting it is possible to associate taxable income with each business. That being the case, why did OPG not use a similar approach to allocate the tax losses to each business, based on the extent to which the losses were actually incurred in each business?

b) Please provide the impact of following the approach suggested in part a) on the balances allocated to each business.

Response

a) OPG believes that, for the balance in the Tax Loss Variance Account, it is reasonable to allocate tax losses to regulated hydroelectric and nuclear in a manner consistent with the allocation of the revenue requirement reduction imposed in EB-2007-0905. This method results in a consistent allocation of the components of the Tax Loss Variance Account to the two businesses.

b) The impact of following the suggested alternative approach is not material. As Ex. H1-T1-S1, Table 4, line 2 shows, only $8.0M out of the $50.3M in revenue requirement impact from the tax losses is attributed to regulated hydroelectric operations. So even if the entire $8.0M was shifted from regulated hydroelectric to nuclear (a simple test of the proposed approach given that the majority of tax losses pertain to nuclear operations), the maximum impact would be to increase the nuclear portion of the Tax Loss Variance Account by $8.0M to $416.1M and correspondingly reduce the regulated hydroelectric portion to $69.7M at line 7 of Ex. H1-T1-S1, Table 4.

   The impact on recovery reflected in Ex. H1-T2-S1, Tables 1 and 2 would be approximately a $0.11/MWh increase for regulated hydroelectric rider and a $0.04/MWh decrease for the nuclear rider.

PWU Interrogatory #026

Ref: Ex. H1-T2-S1, pages 3 and 5 state that OPG proposes to extend the amortization of balances in the Tax Loss Variance Accounts to 46 months, to lessen ratepayer impact.

Issue Number: 10.3
Issue: Is the disposition methodology appropriate?

Interrogatory

Please provide a comparison of the ratepayer impacts assuming the balances in these accounts (for each of hydroelectric and nuclear) were amortized over the same 22 month period being proposed to clear the balances in all other deferral and variance accounts.

Response

The requested comparison of the ratepayers impacts, expressed as rate riders for each of regulated hydroelectric and nuclear, is as follows:

	Tax Loss Variance Account Recovery Period of 22 Months ($/MWh)	**Tax Loss Variance Account Recovery Period of 46 Months ($/MWh)**
Regulated Hydro Rate Rider	(1.30)	(2.46)
Nuclear Rate Rider	7.48	5.09