

**Board Staff Interrogatory #149**

**Ref:** Electricity RRR (Version dated: July 9, 2007)

**Issue Number: 11.1**

**Issue:** What reporting and record keeping requirements should be established for OPG?

**Interrogatory**

The Board's Reporting and Record Keeping Requirements ([Version dated: July 9, 2007](#)) listed reporting requirements for generators in section 6.

- a) Please indicate whether OPG would be able to provide the section 6 information on a regular basis.
- b) Can OPG file the following information with the Board on a quarterly basis?
  - i) Deferral and variance accounts for the prescribed facilities – report 60 days after quarter end.
  - ii) Financial reports issued to the public according to the established reporting schedule.
  - iii) Nuclear unit capability factor and hydroelectric availability (for the regulated hydroelectric facilities).
- c) Can OPG provide the following information with the Board on an annual basis by April 30<sup>th</sup> each year?
  - i) Audited financial statements for the prescribed facilities as in Exh.A2/Tab1/Sch1/ Attachment 3.
  - ii) OPG corporate annual report.
  - iii) Trial balance for the prescribed facilities (details to be determined).
  - iv) Employee FTE count.
  - v) Capital additions (details to be determined) and work in progress.

**Response**

- a) The information listed in section 6 of the referenced document could be provided on a regular basis with the following exceptions and cautions:

6.1.1 Items 7 and 8      There may be confidentiality concerns regarding these items.

6.1.1 Item 11      The depreciation asset lives are established at the station, rather than unit, level for OPG's nuclear facilities. For regulated hydroelectric stations, OPG does not establish an overall depreciation asset life for a particular unit, station or plant group. Individual asset classes for regulated hydroelectric facilities are depreciated over their respective estimated service lives.

Witness Panel: Deferral and Variance Accounts, Payment Amounts and Regulatory Treatments

6.1.1 Item 12 Not applicable to regulated facilities.

6.1.1 Item 13 Can fluctuate on a daily or hourly basis so “regular” reporting is not possible.

OPG notes that “regular basis” is not defined in this question. OPG expects it would work with Board Staff to develop a reasonable schedule for the filing of information.

b) i) Yes, and these balances would be unaudited. Audited balances will be available as part of OPG’s audited annual consolidated financial statements, which are discussed in part (b) (ii) below.

ii) OPG understands that “financial reports” in this question refer to OPG’s publicly available Management’s Discussion & Analysis (“MD&A”) and unaudited interim (quarterly) consolidated financial statements prepared during a given year ending December 31, as well as OPG’s annual MD&A and audited annual consolidated financial statements as filed with the Ontario Securities Commission (“OSC”) pursuant to the *Securities Act*. Based on the current filing requirement applicable to venture issuers, OPG can file this information with the OEB within 60 days of each quarter-end (with the exception of the year-end), and within 120 days of the year-end (i.e., by April 30 of the subsequent year). Should reporting obligations pursuant to the *Securities Act* change, OPG would have to reassess its ability to file its MD&A and financial statements within the indicated times frames above.

iii) Subject to response to b) ii) above, OPG can file the nuclear unit capability factor and hydroelectric availability (for the regulated facilities) that are included in the quarterly/annual MD&A filed with the OSC within 60 days of each quarter-end (with the exception of year-end), and within 120 days of the year-end (i.e., by April 30 of the subsequent year).

c) i) OPG does not believe that it would be able to provide the requested financial statements by April 30 of each year. In fact, OPG believes that the financial statements for the prescribed facilities, as filed in Ex. A2-T1-S1, Attachment 3, should not be a component of ongoing reporting and record keeping requirements. OPG does not believe that these statements provide helpful information to assess and monitor the performance of OPG’s prescribed assets for rate making purposes as discussed below.

In preparing these financial statements in accordance with generally accepted accounting principles (“GAAP”), OPG was required to establish allocation methodologies for certain items that are not relevant for rate making purposes because of differences between regulatory constructs and accounting requirements under GAAP (as noted in Ex. A2-T1-S1, section 3.0).

1 In certain instances, the Prescribed Facilities' financial statements contain information  
2 that is different from that which is submitted for rate-making purposes. Some  
3 examples are:  
4

- 5 • The deemed debt amounts are different between the financial statements and  
6 OPG's Application because the amounts in the application have been computed  
7 using the methodology approved by the OEB in EB-2007-0905, while those in the  
8 financial statements are computed using the year-end equivalent of rate base and  
9 year-end actual outstanding debt.  
10
- 11 • The cash working capital amounts differ between the application and the financial  
12 statements. The cash working capital balance in rate base is determined using a  
13 separate lead/lag approach, as discussed in Ex. B1-T1-S2, whereas the financial  
14 statements include an allocation of accounts receivable and accounts payable  
15 balances.  
16
- 17 • Income tax expense in the financial statements is also not the same as the  
18 regulatory tax expense presented in Ex. F4-T2-S1, as it was determined without  
19 the application of regulatory constructs.  
20

21 Based on these and other differences, presenting information in the form of financial  
22 statements may in fact create greater confusion. The problem is well illustrated by  
23 those interrogatories in this proceeding that request reconciliations of these financial  
24 statements to regulatory information in the pre-filed evidence which cannot be  
25 accomplished.  
26

27 In addition, as part of the preparation of these financial statements, OPG is required  
28 to include information that is inconsistent with how OPG operates and, hence, is not  
29 used by management to make decisions or for any other internal purpose. This  
30 includes balances related to corporately held functions such as cash management  
31 and accounts receivable securitization. OPG manages cash on a corporate-wide  
32 basis; the cash balance and the statement of cash flows included in the Prescribed  
33 Facilities' financial statements were only included because GAAP financial  
34 statements generally require this information. This information does not serve any  
35 business or regulatory purpose.  
36

37 Further, in cases where information is not available from OPG's financial systems to  
38 meet the note disclosure requirements for these statements, significant judgement  
39 and effort is required to determine the allocations to the prescribed facilities. For  
40 example, OPG does not track a number of balance sheet items, including a number  
41 of working capital balances, by business unit and, as such, had to make allocation  
42 assumptions when attributing these balances to the prescribed facilities. (OPG notes  
43 that it is its understanding that certain other utilities regulated by the OEB that  
44 produce similar stand-alone statements already track the necessary information as  
45 part of their internal systems. As such, OPG's situation is different in this regard.)

The preparation of OPG's 2009 Prescribed Facilities' financial statements and comparative data for 2008 involved significant human resource, internal control and external audit effort. OPG estimates that the total cost of this effort was over \$400k including the cost of the external audit of \$225k. This cost estimate does not consider future costs for potential system and process changes to capture the required information should these statements become a continuous reporting requirement. OPG's financial systems and processes are not designed to easily extract, manipulate and aggregate all of the required information for these statements within a sufficient time frame to have them available for the OEB by April 30 of each year.

Based on the above considerations, OPG believes that a more practical and less costly approach would be to file only selected sections of the financial statements (determined jointly with the OEB staff) that are relevant for rate making purposes, to the extent that they are not already included in OPG's corporate consolidated financial statements. This information could be filed with the OEB by June 30 of each year.

- ii) The preparation of a corporate annual report is not a statutory requirement. Should OPG decide that this effort is no longer justified for business purposes, it would be inappropriate for OPG to be required to continue preparing an annual report solely for regulatory purposes because all of the relevant financial and non-financial information pertaining to OPG's prescribed facilities would already be provided in its annual MD&A and consolidated financial statements. However, if OPG produces an annual report in a given year, OPG would be able to file it with the OEB following its release.
- iii) OPG would be unable to file a trial balance for the prescribed facilities by April 30. Because OPG has significant regulated and unregulated operations within the same legal entities, a trial balance is not available for the prescribed facilities on stand-alone basis. Most items are not tracked in OPG's systems specifically for the prescribed facilities in a manner that would enable a trial balance to be produced. OPG would be required to make numerous manual allocation assumptions (or aggregate existing allocation models for various items currently maintained outside of its general ledger), as it did in order to prepare the financial statements for the prescribed facilities discussed in part c) i) above. The task of allocating general ledger account balances to the prescribed facilities in order to produce a complete trial balance will involve even greater effort than that involved in the preparation of the Prescribed Facilities' financial statements.

Generally, OPG believes it would be able to file with the OEB supporting records for selected sections of the Prescribed Facilities' financial statements (as proposed in part c) i)) by the same date as the sections themselves, i.e., by June 30 of each year.

- iv) OPG can provide the OEB with headcount information pertaining to the prescribed facilities as of the preceding year-end by April 30 of the following year in the same

1 manner as presented in Ex. F4-T3-S1, Chart 1, as this information is available for all  
2 business units on a consistent basis.

- 3  
4 v) OPG's ability to file information on capital additions for the prescribed facilities by  
5 April 30 depends on the details that the question notes are "to be determined." OPG  
6 assumes that by "capital additions" and "work in progress" Board staff means "in  
7 service additions" and life-to-date "construction work in progress" balances. OPG is  
8 also unclear as to the format and level of granularity of the information that may be  
9 required.

10  
11 Subject to further clarification on the details of the requirements, OPG generally  
12 believes that it has the necessary information regarding in-service additions and  
13 construction work in progress for the prescribed facilities for the preceding year that it  
14 can provide to the OEB by April 30 of each year.

15  
16 OPG notes that segmented information (separating nuclear and regulated  
17 hydroelectric facilities) for year-end construction in progress (for fixed assets) and  
18 development in progress (for intangible assets) balances is already included in OPG's  
19 annual consolidated financial statements (e.g., Ex. A2-T1-S1, Attachment 2, page  
20 151 in Note 19 to OPG's financial statements).