

SEC Interrogatory #95

Issue Number: 11.1

Issue: Is OPG's approach to incentive rate-setting for establishing the regulated hydroelectric payment amounts appropriate?

Interrogatory

Reference:

SEC seeks to understand the interplay between the proposed rate-setting mechanism and the Hydroelectric Capacity Refurbishment Variance Account:

- a. Please provide a list of all planned capital projects and their costs that are expected to be in-service between 2017 and 2021 that would be subject to the Hydroelectric Capacity Refurbishment Variance Account.
- b. For each year between 2017 and 2021, please provide OPG's forecast total hydroelectric in-service additions.
- c. Please explain how OPG has taken into account the Hydroelectric Capacity Refurbishment Variance Account in its determination of the appropriate incentive rate-setting adjustment for hydroelectric payment amounts.

Response

a) b) and c)

Incentive regulation decouples revenues and costs. The CRVA retains the link for a specific category of capital costs (i.e., capital and non-capital costs and firm financial commitments incurred to increase the output of, refurbish, or add operating capacity to a generating facility). The CRVA removes any potential economic disincentive to invest in a category of projects. As such, OPG is of the view that in addition to being required to implement O. Reg. 53/05, the CRVA is consistent with incentive regulation. Current approved rates include an amount associated with CRVA projects which will form the reference amount to be used for the CRVA. OPG's actual costs will be recorded in the CRVA regardless of whether they are included in OPG's current forecasts; therefore forecasts of specific projects or in-service amounts are not relevant. As the CRVA is consistent with IR, and OPG has followed the price-cap option as defined in the RRFE, no adjustment is necessary and none is proposed.

Although OPG does not believe it is relevant to this proceeding, OPG has provided the information in requested in parts (a) and (b) in Charts 1 and 2, below.

Chart 1 lists the regulated hydroelectric capital projects currently expected to be fully or partially placed in service between 2017 and 2021 for which incremental revenue

1 requirement is expected to be included in the CRVA. Chart 1 also includes the in-service
 2 amounts and total revenue requirement impact (including income tax deductions for Capital
 3 Cost Allowance) estimated for each of these projects during the 2017-2021 period.
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Chart 1: CRVA-Eligible Projects - Expected In-Service Additions (Regulated Hydroelectric)

Project Name	In-Service Date(s)	Expected In-Service Additions (2017-2021) (\$M)	Estimated Revenue Requirement Impact (2017-2021) (\$M)
Sir Adam Beck I GS - G10 Major Overhaul & Upgrade	2017	30	10
Sir Adam Beck Pump GS - Reservoir Refurbishment	2017	58	24
DeCew Falls II GS - G2 Overhaul & Upgrade	2018	38	10
Ranney Falls GS Expansion Project	2019	65	-4
Sir Adam Beck I GS - G8 Major Overhaul & Upgrade	2020	27	3
Sir Adam Beck I GS - G2 Frequency Conversion	2020	43	5
Sir Adam Beck I GS - G1 Frequency Conversion	2021	45	2
R.H. Saunders GS - Reinsulate Field Poles	2019, 2020 & 2021	4	0
R.H. Saunders GS - Replace Discharge Rings	2019, 2020 & 2021	7	1
R.H. Saunders GS - Replace Runners	2019, 2020 & 2021	10	1
Stewartville GS - Rewind Generators & Refurbish Field Poles	2020 & 2021	9	1
		335	52

*Numbers may not add due to rounding

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 7 Chart 2 presents OPG's current expectation of total regulated hydroelectric in-service
 8 additions for the 2017-2021 period.
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**Chart 2: Expected Total In-Service Additions
 (Regulated Hydroelectric)**

(\$M)	2017	2018	2019	2020	2021
	182	178	186	211	195

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