

Tel: 416 592-5984  
Lubna.Ladak@opg.com

February 28, 2019

**VIA RESS AND COURIER**

Registrar  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, Ontario M4P 1E4

Dear Registrar,

**Re: EB-2019-0099 – Ontario Power Generation – Fair Hydro Plan 2018 Fee for Costs and Expenditures Application**

Attached please find an Application by Ontario Power Generation (“OPG”), acting as the Financial Services Manager (“FSM”) of the Fair Hydro Plan (or the Fair Hydro Trust), for an order approving the fee for costs and expenditures for the period beginning January 1, 2018 and ending on December 31, 2018.

The Application is guided by the *Ontario Fair Hydro Plan Act, 2017* (the “Act”) and Section 10 of Ontario Regulation 206/17 (the “FHP Regulation”). Pursuant to the Act, the FSM is required to establish a fee to recover the amount of costs and expenditures incurred by the FSM. Pursuant to the FHP Regulation, the FSM is required to submit the proposed fee for the period beginning January 1, 2018 and ending on December 31, 2018, for review by the Ontario Energy Board (the “Board”), on or before February 28, 2019.

The EB-2017-0375 / EB-2018-0102 Decision issued July 5, 2018 observed that the Act provides that the Board may exercise any of its responsibilities under the Act without a hearing. The Board provided four reasons for proceeding without a hearing. The first two reasons are germane to this application. This application is substantially similar to the EB-2018-0102 application. As a result, the review of this application can be processed in a similar fashion as EB-2018-0102.

If you have any questions on this matter, please do not hesitate to contact me at (416) 592-5984.

Sincerely,

*[Original Signed By]*

Lubna Ladak

Cc: Clara Greco, OPG  
Randy Pugh, OPG

1                                   **ONTARIO ENERGY BOARD**

2  
3                   **IN THE MATTER OF** the *Ontario Fair Hydro Plan Act*,  
4                   2017 (the “Act”) and Ontario Regulation 206/17 (the “FHP  
5                   Regulation”);  
6

7                   **AND IN THE MATTER OF** an application by Ontario Power  
8                   Generation Inc., in its capacity as the Financial Services  
9                   Manager under the Act, for an order or orders approving  
10                  fees pursuant to subsection 19(4) of the Act and section  
11                  10.13 of the FHP Regulation, for the period beginning on  
12                  January 1, 2018 and ending on December 31, 2018 (the  
13                  “Application”).  
14

15  
16                                   **APPLICATION**  
17

- 18   1. Ontario Power Generation Inc. (“OPG”) is a corporation, incorporated under the  
19       *Ontario Business Corporations Act*, with its head office in the City of Toronto. OPG is  
20       appointed under section 18 of the Act as the Financial Services Manager (“FSM”) for  
21       the purposes of the Act. OPG, in its capacity as the FSM, is hereby applying to the  
22       Ontario Energy Board (the “Board”) for approval of fees pursuant to subsection 19(4)  
23       of the Act and section 10.13 of the FHP Regulation, for the period beginning on January  
24       1, 2018 and ending on December 31, 2018.  
25
- 26   2. Under the Act, the FSM has the authority and responsibility for, among other things,  
27       establishing and managing one or more entities (referred to in the Act as “financing  
28       entities”) to raise debt financing (referred to in the Act as “funding obligations”) for the  
29       purposes of the Act. The Fair Hydro Trust (the “FH Trust”) is one such financing entity  
30       that was established on December 20, 2017. In accordance with subsection 19(3) of  
31       the Act, the FSM may establish and charge fees to financing entities in relation to  
32       prescribed matters.<sup>1</sup>

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<sup>1</sup> FHP Regulation, s. 10.1 (1)

3. Pursuant to subsection 78.1(3) of the *Ontario Energy Board Act, 1998*, the activities of OPG which are carried out in relation to the Act, including costs it incurs and fees it receives in connection with the performance of its duties as FSM,<sup>2</sup> are separate from and shall not be considered by the Board when the Board sets payment amounts for OPG in respect of its prescribed generation facilities.<sup>3</sup>

4. OPG filed the EB-2018-0102 application on February 28, 2018 for a proposed fee for the period beginning June 1, 2017 to December 31, 2017. The Board approved a fee of \$5,675,991.24.

5. Applications for approval of fees are required on or before February 28, 2019 and by the same date in each subsequent year for the periods beginning on April 1 and ending on March 31 of the corresponding years.<sup>4</sup> The methodologies to apply in this application are similar to those used in EB-2018-0102. Distinct methodologies will apply, in accordance with the FHP Regulation, for determining fees in respect of those future applications for the corresponding periods.

6. Pursuant to section 10.13(1) of the FHP Regulation, the FSM's proposed fee for 2018 (2018 Fee) is approximately \$1.9M, reflecting the amount of costs and expenditures paid by the FSM in relation to prescribed matters<sup>5</sup> during 2018.

7. In accordance with subsection 10.14(1) of the FHP Regulation, upon reviewing the Application, the Board may either (i) approve the fee proposed under section 10.13 or (ii) subject to subsection 10.14(2) of the FHP Regulation, refuse to approve a portion of the amount included in the proposed fee relating to any costs and expenditures and approve the remainder of the proposed fee. The Board's review requirements are

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<sup>2</sup> OEB Act, Section 78.1 (3.1), part 2

<sup>3</sup> OEB Act, Section 78.1 (3)

<sup>4</sup> FHP Regulation, s. 10.8 (1)

<sup>5</sup> FHP Regulation, s. 1 defines "prescribed matters" as matters relating to the establishment, management and administration of financing entities and the investment asset, including but not limited to matters in relation to, (a) financing entities that are established or that are planned to be established, and (b) funding obligations that have been incurred or that are planned to be incurred by financing entities.

1 established in the FHP Regulation and a description of the written evidence filed to  
2 assist the Board in its review is provided below.

3  
4 8. Pursuant to subsection 10.14(2) of the FHP Regulation, the Board may refuse to  
5 approve an amount of a cost or expenditure if the Board is of the view that the cost or  
6 expenditure was not incurred by the FSM in relation to prescribed matters or that the  
7 cost or expenditure was not paid by the FSM during the year to which the fee relates.  
8 OPG's written evidence included with this Application confirms that the cost or  
9 expenditure was incurred by the FSM in relation to prescribed matters and that the cost  
10 or expenditure was paid by the FSM during the year to which the fee relates.

11  
12 9. Specifically, in accordance with section 10.13(7) of the FHP Regulation, the Application  
13 must include a written report from an external auditor on the following: (1) the amounts  
14 of the costs and expenditures that the FSM seeks to recover through fees, as set out  
15 in the submission, are accurate; (2) the amounts of the costs and expenditures, as set  
16 out in the submission, were incurred by the FSM; and (3) except in the case of amounts  
17 referred to in paragraph 9 of section 10.13(3) of the FHP Regulation relating to direct  
18 costs for employees exclusively dedicated to provisions of services to the FH Trust,  
19 the amounts were paid to third parties. OPG, as the FSM, engaged Ernst & Young LLP  
20 ("EY"), FH Trust's external auditor to provide a Specified Procedures Report, which  
21 has been included and discussed in the written evidence.

22  
23 10. OPG believes that the written evidence provided with this Application<sup>6</sup> provides direct,  
24 clear independent verification that the costs and expenditures incurred by the FSM  
25 meet the requirements of the FHP Regulation 10.13 (as set out above) for inclusion in  
26 the 2018 Fee. These sections, 10.13 and 10.14, are similar to sections 10.2 and 10.3  
27 used in EB-2018-0102 to establish the proposed fee and the Board's review  
28 requirements. As such, the written evidence provided is the same type of evidence  
29 provided in EB-2018-0102.

30  

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<sup>6</sup> OPG may supplement or amend the evidence filed with this Application from time to time prior to the Board's final decision on the Application.

11. The EB-2017-0375 / EB-2018-0102 Decision issued July 5, 2018 observed that the OFHPA provides that the OEB may exercise any of its responsibilities under the Act without a hearing. The OEB provided four reasons for proceeding without a hearing.<sup>7</sup> The first two reasons<sup>7</sup> are germane to this application. This application is substantially similar to the EB-2018-0102 application. As a result, the review of this application can be processed in a similar fashion as EB-2018-0102.

12. OPG further applies to the Board pursuant to the provisions of the Act and the Board's Rules of Practice and Procedure for such orders and directions as may be necessary in relation to the Application and the proper conduct of this proceeding.

13. The persons affected by this Application are specified consumers as defined in the Act. It is impractical to set out the names and addresses of the specified consumers because they are too numerous.

14. OPG requests that copies of all materials filed with the Board in connection with this Application be served on the Applicant and the Applicant's counsel as follows:

(a) The Applicant: Ms. Lubna Ladak  
Ontario Power Generation Inc.

Mailing address: HLC 027  
700 University Avenue  
Toronto, ON. M5G 1X6

Telephone: 416-592-5984

Facsimile: 416-592-4189

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<sup>7</sup> OEB Decision and Order EB-2017-0365 / EB-2018-0102, p.3

1 Electronic mail: Lubna.Ladak@opg.com

2  
3  
4 (b) The applicant's Counsel: Ms. Clara Greco  
5 Ontario Power Generation

6  
7 Mailing Address: HLC 004  
8 700 University Avenue  
9 Toronto ON. M5G 1X6

10  
11 Telephone: 416-592-8226

12  
13 Facsimile: 416-592-4189

14  
15 Electronic mail: Clara.Greco@opg.com

16  
17  
18 Dated at Toronto, Ontario, this 28<sup>th</sup> day of February, 2019.

19  
20 Ontario Power Generation Inc.

21  
22 [Original signed by]

23 \_\_\_\_\_  
24 Lubna Ladak,  
25 Vice-President, Treasury - Fair Hydro Plan

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Fair Hydro Plan Act, 2017*  
(the “Act”) and Ontario Regulation 206/17 (the “FHP  
Regulation”);

**AND IN THE MATTER OF** an Application by Ontario Power  
Generation Inc., acting as the Financial Services Manager  
under the Act, for an order or orders approving fees pursuant  
to subsection 19(4) of the Act and section 10.13 of the FHP  
Regulation, for the period beginning on January 1, 2018 and  
ending on December 31, 2018 (the “Application”).

**2018 FEE SUPPORTING EVIDENCE  
FOR JANUARY 1, 2018 TO DECEMBER 31, 2018**

**1.0 BACKGROUND**

In June 2017, the Government of Ontario (the “Province”) enacted the Act, to establish a framework under which the costs and benefits associated with the Province’s clean energy initiatives are to be fairly allocated between present and future consumers of electricity under Ontario’s Fair Hydro Plan (“FHP”). The objective of the Act is to reduce average electricity bills for specified consumers by 25 per cent commencing on July 1, 2017. The total bill reduction of 25 per cent is comprised of an 8 per cent reduction of the Provincial portion of the harmonized sales tax, with the remaining 17 per cent achieved by decreasing energy rates for specified consumers paying the Regulated Price Plan rate and providing a global adjustment reduction credit for other specified consumers. The reduction in electricity bills has resulted in shortfalls in the Independent Electricity System Operator’s (“IESO”) monthly collections, which need to be financed in order to pay the underlying global adjustment costs. The objective of the FHP program is to refinance a portion of the deferred global adjustment costs over a longer period of time.

Under the Act, OPG is appointed as the Financial Services Manager (“FSM”) and is given the authority to, among other things, establish and manage one or more financing entities to raise debt financing (referred to as “funding obligations”) for purposes of the Act. The Act requires

1 the Minister of Energy (“MOE”) to calculate the Fair Allocation Amount<sup>1</sup> and for the FSM to  
2 incur funding obligations that, subject to refinancing, reasonably align with the Fair Allocation  
3 Amount, as adjusted by any readjustment amount.

4  
5 The Fair Hydro Trust (the “FH Trust”) is a financing entity that was established on December  
6 20, 2017. For purposes of subsection 19(3) of the Act, the fees established and charged by  
7 the FSM may be charged to the FH Trust. Certain elements of these fees are subject to review  
8 by the Ontario Energy Board (the “Board”).

9  
10 The FHP Regulation was enacted in support of the Act. Section 10 of the FHP Regulation  
11 addresses the setting, review, and charging of fees to financial entities. In general, these  
12 proposed fees are i) to manage FH Trust and ii) to recover costs and expenditures incurred by  
13 the FSM in relation to prescribed matters. The latter fee is the purpose of this application. The  
14 FHP Regulation provisions has specific sections for certain time periods. However these  
15 regulations have similar methodologies. EB-2018-0102, which the Board approved<sup>2</sup>, focused  
16 on 2017 and referred to sections 10.2 and 10.3. These sections are similar in nature to sections  
17 10.13 and 10.14 in this application, which focus on 2018. These two sections of the FHP  
18 Regulation establish similar parameters for the proposed fee and the Board’s review  
19 requirements.

20  
21 The FSM is required to perform the duties assigned to it under the Act and as may be  
22 prescribed under the applicable regulation. These include, but are not limited to, the FSM’s  
23 responsibility for providing services to the FH Trust related to acquiring, administering, and  
24 selling investments, as well as issuing debt to finance these transactions. In addition, the FSM  
25 is responsible for preparing financing plans, forecasting cash flow requirements of the FH  
26 Trust, acting as custodian of investment records, and entering and executing various program  
27 agreements associated with these activities. The FSM also has a monitoring role related to the  
28 collection of clean energy adjustments by local distribution companies/electricity vendors from  
29 specified consumers, as required by program agreements.

30  

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<sup>1</sup> The Act, s. 20(1).

<sup>2</sup> The Board approved a fee of \$5,675,991.24.



1   **2.0    PURPOSE**

2   OPG is applying, in its capacity as the FSM, to the Board for approval to charge the FH Trust  
3   the proposed fee required by section 10.13(1) of the FHP Regulation for the period beginning  
4   on January 1, 2018 and ending on December 31, 2018 (the "Application Term").  
5

6   **3.0    OVERVIEW**

7   Section 10.13(2) of the FHP Regulation defines the proposed fee for the Application Term as  
8   the amount of costs and expenditures incurred by the FSM in relation to prescribed matters,  
9   which is a proposed amount of \$1,917,620.26. The review requirements established in the  
10   FHP Regulation and a description of the written evidence filed to assist the Board in its review  
11   of the Application Term Costs are provided in Section 4.0. OPG requests the Board approve  
12   recovery of the Application Term Costs of \$1,917,620.26.  
13

14   **4.0    APPLICATION TERM COSTS**

15   Pursuant to subsection 10.14(2) of the FHP Regulation, the Board may refuse to approve  
16   certain Application Term Costs if the Board is of the view that they were not incurred by the  
17   FSM in relation to prescribed matters<sup>3</sup> during the Application Term or that they were not paid  
18   by the FSM during the Application Term. Subsection 10.13(3) specifies 11 different cost or  
19   expenditure types that are included<sup>4</sup> in prescribed matters as defined above. OPG's proposed  
20   Application Term Costs were incurred and paid in relation to 5 of the 11 specified types of costs  
21   and expenditures summarized in Table 1 and described in Notes 1 to 5 of Table 1.  
22

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<sup>3</sup> FHP Regulation s. 1 defines "prescribed matters" as matters relating to the establishment, management and administration of financing entities and the investment asset, including but not limited to matters in relation to, (a) financing entities that are established or that are planned to be established, and (b) funding obligations that have been incurred or that are planned to be incurred by financing entities.

<sup>4</sup> Pursuant to subsection 10.13(3) of the FHP Regulation, costs and expenditures incurred and paid in respect of prescribed matters are not limited to the 11 specific cost and expenditure types referenced in the subsection.

**Table 1: Summary of Proposed Application Term Costs**

FHP Regulation s. 10.13(3) cost type (paragraph)	Description of Cost	Note	Proposed Amount (\$)
5	Fees incurred in the preparation of financial statements, financial reports, compliance certificates and tax returns	1	50,683.50
6	Fees of legal counsel	2	576.75
7	Rating agency fees	3	810,268.00
9	Direct costs of the FSM for employees whose work for the FSM consists exclusively of the provision of services to financing entities in relation to prescribed matters	4	1,003,047.24
10	Costs and expenditures incurred on behalf of any financing entity in connection with the FSM's duties under the Act in relation to the Financing Entity	5	53,044.77
	<b>Total Proposed Application Term Costs</b>		<b>\$1,917,620.26</b>

**Note 1:** Accounting advice from OPG's external auditors to gain concurrence on management's conclusion in respect of the accounting for the FH Trust.

**Note 2:** Fees for legal advice related to the governance of the FH Trust.

**Note 3:** Fees to assign ratings with respect to notes issued by the FH Trust.

**Note 4:** Fully-burdened labour costs of four employees that exclusively provided services to the FH Trust during the Application Term summarized in Appendix A.

**Note 5:** Expenses related to costs incurred by dedicated FH Trust employees and setup fees to integrate FH Trust into FSM's financial reporting system. Costs incurred by dedicated FH Trust employees were for professional fees and travel costs to attend meetings and conferences with stakeholders during the Application Term.

#### Evidence of Application Term Costs Recoverability

Subsection 10.13(7) of the FHP Regulation requires written confirmation from an external auditor that the proposed Application Term Costs are accurate, incurred by the FSM and paid

1 to third parties<sup>5</sup>. Similar to EB-2018-0102, OPG engaged Ernst & Young LLP (“EY”),  
2 FH Trust’s external auditor, to assist OPG’s management in fulfilling the requirements  
3 under this subsection. The procedures EY performed to assist management in meeting  
4 the requirements of this subsection, as well as the corresponding results for each  
5 procedure, are outlined in EY’s report (the “Specified Procedures Report”). These  
6 procedures are similar to EB-2018-0102. Ernst & Young LLP issued this report under  
7 *Canadian Auditing Standards 9100 – Reports on the Results of Applying Specified*  
8 *Auditing Procedures to Financial Information Other than Financial Statements* and the  
9 procedures performed do not constitute an audit. In the course of performing the  
10 specified procedures, EY is required to report each finding, even if it is immaterial. The  
11 Specified Procedures Report is provided in Appendix B, with the results summarized  
12 below.

13  
14 Five procedures were conducted by EY in support of their Specified Procedures  
15 Report. Procedure 1 recalculates the 2018 fees for costs and expenditures by general  
16 cost type (i.e., third-party costs, direct costs of the FSM, other costs and expenditures)  
17 to verify the sum of the components of the 2018 fees for costs and expenditures as  
18 reflected by OPG in this Application. The proposed Application Term Costs described  
19 in Notes 1 to 5 of Table 1 were examined through the performance of specified  
20 procedures 2 to 5 as summarized in Table 2 below:

21  

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<sup>5</sup> Direct costs of the FSM for employees whose work for the Financial Services Manager consists exclusively of the provision of services to financing entities in relation to prescribed matters are excluded from the requirement that cost and expenditures be paid to third parties pursuant to FHP Regulation s. 10.13(7) paragraph 3.

**Table 2: Summary of Specified Procedures Applied to Proposed Application Term Costs**

<b>FHP Regulation s. 10.13(3) cost type (paragraph)</b>	<b>Application Term Costs Description</b>	<b>Specified Procedures Applied</b>
5	Note 1 of Table 1	Procedures 2 and 3
6	Note 2 of Table 1	Procedures 2 and 3
7	Note 3 of Table 1	Procedures 2 and 3
9	Note 3 of Table 1	Procedure 4
10	Note 4 of Table 1	Procedure 5

Specified procedures 2 to 5 and the results of their application are summarized below. Each of these four specified procedures involves several more tests, for a total of 22 tests. In the Specified Procedures Report, EY's findings specifically state that "no exceptions were noted" for 20 of the 22 tests. Ernst & Young LLP provides a detailed description of each of the two minor exceptions in the Specified Procedures Report. The exceptions are a result of the strict application of specific tests and do not mean that the Application Term Costs proposed for recovery are incorrect. The two minor exceptions are discussed within the context of the procedures themselves and summarized below.

**Procedure 2:** Examined whether the Application Term Costs were: a) relevant (i.e., related to defined prescribed matters), b) accurately reflected in the listing of Application Term Costs proposed for recovery (i.e., the pre-tax invoice amount was used to determine the Application Term Costs), c) incurred during the Application Term, d) incurred by OPG, and e) accurately summarized in the total costs proposed for recovery. For the five tests described above, EY found two exceptions. The first was a proposed recovery amount which required a supplementary schedule to agree to its invoice. The vendor bills OPG on a monthly basis for all work done in the prior month, providing a breakdown of charges in the supplementary schedule. The schedule is necessary to isolate the charges only relating to FHT. The exception EY noted was the recovery amount did not directly agree to the invoice. However, EY was able to agree using the vendor provided supplementary schedule. The second

1 exception was an invoice which only provided an after tax amount, and did not show  
2 the pre-tax amount. Ernst & Young LLP calculated the pre-tax amount and concluded  
3 that the pre-tax amount is correctly included in the Application Term Costs, not the  
4 after-tax amount per the invoice. Therefore, the exception was a result of the way the  
5 vendor prepared its invoice, and does not impact the accuracy of the amount OPG  
6 proposes to recover.

7  
8 **Procedure 3:** Examined whether invoiced amounts proposed for recovery were:

9 a) reflected in bank statements as paid, b) paid to third parties, c) paid during the  
10 Application Term, and d) accurately paid in Canadian dollars for U.S. dollar invoices.  
11 There were three tests, two involving 3 sub-tests each, and EY found no exceptions.

12  
13 **Procedure 4:** Examined OPG's direct labour costs to determine whether a) employees  
14 listed were exclusively involved in work directly related to the Fair Hydro Plan and/or  
15 Global adjustment, b) standard rates were applied consistently with the employees'  
16 pay band, c) direct labour was correctly determined for the exclusively dedicated staff  
17 using hours worked and the corresponding standard labour rates, d) sickness,  
18 accident, vacation and holiday costs were allocated at a standard rate of 23 per cent  
19 of regular labour costs, e) labour costs were incurred for the Application Term and  
20 f) labour costs were accurately calculated. No exceptions were noted by EY for any of  
21 these six tests. Additional details on the direct labour costs OPG is seeking for  
22 recovery is provided in Appendix A.

23  
24 **Procedure 5:** Examined whether cost or expenditure amounts were a) supported by  
25 receipts, b) reflective of the Input Tax Credit ("ITC") and Recapture of ITC amounts  
26 derived using management provided formulas, c) related to exclusively dedicated FH  
27 Trust employees described in Procedure 4, d) incurred during the Application Term,  
28 and e) accurately reflected in the Application Term Costs. No exceptions were noted.

29

1    **Summary**

2    Based on the finding in EY's Specified Procedures Report as summarized above,  
3    OPG, as the FSM, asserts that the proposed Application Term Costs are accurate,  
4    incurred by the FSM, and were paid to third parties (as applicable), which are all  
5    consistent with subsection 10.13(7) of the FHP Regulation and the review  
6    requirements of subsection 10.14(2) of the FHP Regulation.

## Appendix A

### Direct costs of labour for exclusively dedicated Fair Hydro Trust employees

Internal costs of approximately \$1 million relating to direct labour costs for employees whose work for the Financial Services Manager consists exclusively of the provision of services to financing entities in relation to prescribed matters have been included in the proposed 2018 Fee. The amount represents the fully-burdened costs OPG incurred including an allocated provision of 23 per cent of the base labour costs for sickness, accident, vacation and holidays ("SAVH"). The proposed 2018 Fee includes the fully-burdened direct labour costs for the following four employees:<sup>1</sup>

1. Employee #215415 – Senior Manager level, permanent full-time, dedicated to Fair Hydro Plan Group since 2017 (refer to EB-2018-0102) – This employee worked for the group up until mid-October 2018. The fully-burdened labour costs included in the Application for this employee is \$170,171, representing a partial year.
2. Employee #494214 – Vice President level, permanent full-time, dedicated to Fair Hydro Plan Group since 2017 (refer to EB-2018-0102) – The fully-burdened labour costs included in the Application for this employee is \$286,113, representing a full year.
3. Employee #209115 – Senior Manager level, permanent full-time, dedicated to Fair Hydro Plan Group since February 2018 - This employee worked for the group up until mid-November 2018. The fully-burdened labour costs included in the Application for this employee is \$155,698, representing a partial year.

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<sup>1</sup> For privacy concerns, the employee numbers have been provided.

1       4. Employee #209110 – Senior Manager level, permanent full-time, dedicated to  
2       Fair Hydro Plan Group since December 2017 - The fully-burdened labour costs  
3       included in the Application for this employee is \$203,503, representing a full  
4       year.

5  
6       Approximately \$0.3 million of unrecoverable other direct labour costs have been  
7       expended by OPG during 2018 but were not included in the Application as the  
8       employees did not work exclusively on prescribed matters, as required by the Fair  
9       Hydro Plan Regulation.





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## REPORT ON SPECIFIED PROCEDURES

To: Ontario Power Generation Inc.

As specifically agreed, the procedures we performed were to solely assist management (**Ontario Power Generation Inc.**) in fulfilling the requirement under section 10.13(7) of the *Ontario Regulation 206/17 General*, for the proposed fee for costs and expenditures of OPG as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017* for the period beginning on 1 January 2018 and ending on 31 December 2018 (the "Specified Procedures"), reported to the Ontario Energy Board (the "Specified Party").

The procedures are outlined below in Appendix A.

As a result of applying the following procedures, we found no exceptions other than as reported in Appendix A.

However, these procedures do not constitute an audit of the proposed general fee of OPG as the Financial Services Manager and therefore we express no opinion on the financial information.

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP'.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
February 26, 2019

## APPENDIX A

The following is a summary of the specified procedures and EY's findings/conclusions:

Procedures and Findings/Conclusions
<p><b><u>Procedure 1</u></b></p> <p>For the 2018 fees for costs and expenditures schedule provided by OPG, recalculate that the total amount OPG (or "management"), as the Financial Services Manager ("FSM"), seeks to recover is equal to the sum of:</p> <ul style="list-style-type: none"> <li>a) Total of all third party incurred costs included in the Invoice Listing<sup>1</sup> provided by OPG for the period of 1 January 2018 to 31 December 2018;</li> <li>b) Total of all direct costs related to labour included in the Labour Costs Listing<sup>1</sup> provided by OPG for the period of 1 January 2018 to 31 December 2018; and</li> <li>c) Total of all other costs included in the Other Costs and Expenditures Listing<sup>1</sup> provided by OPG for the period of 1 January 2018 to 31 December 2018.</li> </ul>
<p><b><u>Results of Procedure 1</u></b></p> <p>We recalculated that the total amount management seeks to recover of \$1,917,620.26 is equal to the sum of:</p> <ul style="list-style-type: none"> <li>a) The total of all third party incurred costs for the period of 1 January 2018 to 31 December 2018 of \$907,637.07;</li> <li>b) The total of all direct costs related to labour for the period of 1 January 2018 to 31 December 2018 of \$1,003,047.24; and</li> <li>c) The total of all other costs for the period of 1 January 2018 to 31 December 2018 of \$6,935.95.</li> </ul> <p>No exceptions were noted.</p>
<p><b><u>Procedure 2</u></b></p> <p>For third-party costs and expenditures, obtain the Invoice Listing provided by management and perform the following procedures for each invoice included in the Invoice Listing:</p> <ul style="list-style-type: none"> <li>a) Agree that the type of costs and expenditures are related to Fair Hydro Plan matters ("prescribed matters") by reading that the details provided in the invoice and/or other supporting schedules provided by management includes in the description a reference to services provided in relation to the Fair Hydro Plan and/or the Global Adjustment;</li> <li>b) Compare whether the invoice amount, before any applicable taxes, recorded by management on the Invoice Listing agrees to the invoice provided by management;</li> <li>c) Note whether the time period for which the expense is related to is between the period of 1 January 2018 to 31 December 2018 based on the details provided in the invoice and/or other supporting schedules provided by management;</li> </ul>

<sup>1</sup> Refer to the Definitions section at the end of Appendix A.



Ernst & Young LLP  
 Chartered Professional Accountants  
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- d) Note whether the invoice is addressed to OPG; and
- e) Test the clerical accuracy of the Invoice Listing by recalculating all applicable fields.

### Results of Procedure 2

- a) We obtained the Invoice Listing and agreed that the type of costs and expenditures are related to prescribed matters by reading that the details provided in the invoice and/or other supporting schedules provided by management includes in the description a reference to services provided in relation to the Fair Hydro Plan and/or the Global Adjustment. No exceptions were noted.
- b) We compared that the invoice amount, before any applicable taxes, recorded by management on the Invoice Listing agrees to the invoice provided by management. We noted the following exceptions:
  - i. The Invoice Listing includes an amount of \$46,108.82 for invoice #08065. EY obtained invoice #08065 and noted that the total before-tax amount is \$2,433,264.06, which includes a line item of \$109,292.52. The invoice amount per the Invoice Listing does not agree directly to the invoice provided by management. Management provided an Excel breakdown originally emailed to OPG by the vendor totalling \$109,292.52. When the breakdown is filtered for the field "Local" to "00100" in the "Project by Resource" tab (representing the charge code for the Fair Hydro Trust), the breakdown for the expense charge code totals the amount of \$46,108.82.
  - ii. EY noted that invoice #1194583 only showed the after-tax amount of \$651.73. As a result, EY recalculated the pre-tax amount of \$576.75 by performing the following calculation: \$651.73 less: \$74.8 = 576.75.
- c) We noted that the expenses were related to the time period of 1 January 2018 to 31 December 2018 based on the details provided in the invoice and/or supporting schedules provided by management. No exceptions were noted.
- d) We noted that the invoices provided by management are addressed to OPG. No exceptions were noted.
- e) We tested the clerical accuracy of the Invoice Listing by recalculating all applicable fields. No exceptions were noted.

### Procedure 3

For each invoice included in the Invoice Listing:

- a) Obtain the supporting bank statement details for the relevant batch payment to test the following:
  - i. the invoice number and amount, including all applicable taxes agree to supporting documentation provided by management which outlines the cheque number, the cheque number is included in the relevant batch payment support, for each batch provided by management;
  - ii. the amount paid is to a third party, per reference to the relevant check register or batch payment information provided by management; and
  - iii. the invoice has been paid during the period of 1 January 2018 to 31 December 2018; or
- b) Obtain the supporting bank statement details for the relevant cheque payment to test the following:
  - i. the invoice number and amount, including all applicable taxes agree to supporting documentation provided by management which outlines the cheque number;

- ii. the amount paid is to a third party, per reference to the relevant check register or batch payment information provided by management; and
- iii. the invoice has been paid during the period of 1 January 2018 to 31 December 2018.
- c) For each invoice denominated in US dollars, recalculate the equivalent amount in Canadian dollars recorded in the Invoice Listing using the exchange rate provided by management.

### Results of Procedure 3

- a) For each invoice included in the Invoice Listing, we obtained the supporting bank statement details for the relevant batch payment and tested the following:
  - i) The invoice number and amount, including all applicable taxes agree to supporting documentation provided by management which outlines the cheque number, the cheque number is included in the relevant batch payment support, for each batch provided by management. No exceptions were noted.
  - ii) The amount paid is to a third party, per reference to the relevant check register or batch payment information provided by management. No exceptions were noted.
  - iii) The invoice had been paid during the period of 1 January 2018 to 31 December 2018. No exceptions were noted.
- b) For each invoice included in the Invoice Listing, we obtained the supporting bank statement details for the relevant cheque payment and tested the following:
  - i) The invoice number and amount, including all applicable taxes agree to supporting documentation provided by management which outlines the cheque number. No exceptions were noted.
  - ii) The amount paid is to a third party, per reference to the relevant check register or batch payment information provided by management. No exceptions were noted.
  - iii) The invoice had been paid during the period of 1 January 2018 to 31 December 2018. No exceptions were noted.
- c) There were no invoices denominated in US dollars. Therefore, this procedure was not applicable.



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#### **Procedure 4**

For direct costs of OPG as FSM related to labour, obtain the Labour Costs Listing provided by management and perform the following procedures for each employee included in the Labour Costs Listing included:

- a) Trace the employee number(s) included in the “Labour Costs listing” to the supporting evidence of employee name(s) provided by management; Agree the employee(s) included in the Labour Costs Listing to the ‘Fair Hydro Group’ within the OPG’s Treasury organizational structure provided by management; or where the employee is not included in the Fair Hydro Group, obtain supporting schedule from management of the hours incurred directly related to the Fair Hydro Plan and/or Global Adjustment; For any employee change(s) to the ‘Fair Hydro Group’, obtain management supporting document for the change and agree to start or end month based on the hours included in the Labour Costs Listing;
- b) Compare the standard labour rate by employee band to OPG’s labour rate schedule provided by management;
- c) Recalculate the labour costs by multiplying the total hours by month to the employee’s standard labour rate;
- d) Recalculate that the Sickness, Accident, Vacation and Holidays (SAVH) allocation is equal to 23% of the regular labour costs;
- e) Note whether the labour costs included relate to the period between 1 January 2018 and 31 December 2018; and
- f) Test the clerical accuracy of the Labour Costs Listing by recalculating all applicable fields.

#### **Results of Procedure 4**

- a) We obtained the “Labour Costs Listing”. For each employee included in the Labour Costs Listing, we traced the employee number to the supporting schedule of employee names provided by management. We agreed the employees included in the Labour Costs Listing to the ‘Fair Hydro Group’ within the OPG’s Treasury organizational structure provided by management. There were no employees that were not included in the Fair Hydro Group. For employee changes to the ‘Fair Hydro Group’, we obtained supporting documentation from management for the change and agreed this to the start or end month based on the hours included in the Labour Costs Listing. No exceptions were noted.
- b) We compared the standard labour rate by employee band to OPG’s labour rate schedule. No exceptions were noted.
- c) We recalculated each employee’s labour costs by multiplying the total hours by month to the employee’s standard labour rate. No exceptions were noted.
- d) We recalculated that the Sickness, Accident, Vacation and Holidays (SAVH) allocation is equal to 23% of the regular labour costs. No exceptions were noted.
- e) We noted that the labour costs related to the period between 1 January 2018 and 31 December 2018. No exceptions were noted.
- f) We tested the clerical accuracy of the Labour Costs Listing by recalculating all applicable fields. No exceptions were noted.

#### **Procedure 5**

For all other costs and expenditures, obtain the Other Costs and Expenditures Listing provided by management and perform the following procedures for each item:

- a) Obtain the supporting receipts and/or expense report from management and agree the expensed gross amount to the receipt provided by management. For US dollar receipts, obtain supporting evidence from management for the Canadian dollar equivalent amount and agree to the expense gross amount;
- b) Recalculate the proposed fee using the formula provided by management, whereby the proposed fee is equal to the Expensed Gross Amount less the Input Tax Credit (ITC) plus Recapture of ITC (RITC), where applicable. The ITC and RITC formulas provided by management are as follows:
  - i. For all other costs, excluding telecommunications, management's formula for ITC is equal to Expensed Gross Amount x 12/112; or
  - ii. For telecommunications costs, management's formula applies both the ITC and RITC to the expense and the formula is equal to Expensed Gross Amount x [12/112 (for ITC) + (12/112)/13\*2 (for RITC)];
- c) Note whether the expense is incurred by an employee included in the 'Fair Hydro Group' within the OPG organizational structure provided by management;
- d) Note whether the other costs and expenditures included relate to the period between 1 January 2018 and 31 December 2018 per reference to the supporting receipts provided by management; and
- e) Test the clerical accuracy of the Other Costs and Expenditures Listing by recalculating all applicable fields.



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#### Results of Procedure 5

- a) We obtained the Other Costs and Expenditures Listing and the supporting receipts and/or expense report and agreed the expensed gross amount to the receipts provided by management. For US dollar receipts, we obtained the supporting evidence from management of the Canadian dollar equivalent and agreed to the expense gross amount. No exceptions were noted.
- b) We recalculated the proposed fee using the formula provided by management described in procedure 5 b), where applicable. EY noted that the proposed fee for ITC and RITC was not applied by management to expenses originally denominated in US dollars.
  - i) No exceptions were noted.
  - ii) No exceptions were noted.
- c) We noted that the expense is incurred by an employee included in the 'Fair Hydro Group' within the OPG organizational structure provided by management. No exceptions were noted.
- d) We noted that the other costs and expenditures included relate to the period between 1 January 2018 and 31 December 2018 per reference to the supporting receipts provided by management. No exceptions were noted.
- e) We tested the clerical accuracy of the Other Costs and Expenditures Listing by recalculating all applicable fields. No exceptions were noted.

#### General Procedure

Where EY is unable to perform any of the Specified Procedures, or an exception occurs, EY will document this in our Report.

#### Results of General Procedure

Refer to the exceptions noted within our report in Procedures 2b. EY was unable to perform Procedure 3c as it was not applicable.

#### Definitions:

The Invoice Listing is defined as the list of invoices related to third-party costs and expenditures detailing, among other things, the invoice date, amount of each invoice, and the service period covered by the invoice, included as part of the proposed 2018 fees for costs and expenditures. The listing provided by management is the tab entitled 'Invoice Listing'.

The Labour Costs Listing is defined as the list of direct labour costs and expenditures, detailing employee identification, employee band, fiscal period and amount of labour cost included as part of the proposed 2018 fees for costs and expenditures. The listing provided by management is the tab entitled 'Labour Costs Listing'.



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The Other Costs and Expenditures Listing is defined as the list of other costs and expenditures, detailing the cost type, vendor name, fiscal period, and amount of each item included as part of the proposed 2018 fees for costs and expenditures. The listing provided by management is the tab entitled 'Other Costs and Exp Listing'.