Board Staff Interrogatory #203

Interrogatory

Reference:
Exhibit F2 / Tab 1 / Schedule 1 / Attachment 4 / pp. 6-11

Question(s):

a) Please confirm whether ScottMadden was given raw accounting data or data pre-filtered by OPG for their validation of the OPG Darlington NGS refurbishment adjustment and normalization.

b) Please discuss the controls in place to ensure that cost attribution based on management assignments (i.e. Scenario 1: Management Assignment or Proportionate Support Allocation) are not subjective.

c) Depending on the specific OPG division / group, different adjustment amounts could be calculated depending on the cost attribution scenario used. Please comment on the efficacy of the current adjustment strategy given the above.

Response

a) ScottMadden was given raw data by OPG for their validation of OPG's application of ScottMadden's methodology to normalize Darlington's total generating cost per MWh ("TGC/MWh") for refurbishment.

b) The reference to Management Assignment under Scenario 1 reflects the use of management estimates as part of OPG's overall cost allocation methodology, which is used to derive amounts attributed to Darlington before the application of the normalization methodology. OPG's use of estimates as part of cost allocation has been validated by external cost allocation experts and applied consistently in past payment amounts proceedings (see Ex. F3-1-4, Attachment 1). Controls over cost allocations at OPG include the use of dedicated resources to maintain, administer and review results of the methodology, direct involvement of line leaders in developing management estimates, and financial reporting oversight over the company's segmented results.

With respect to the application of the normalization methodology, all costs subject to Scenario 1: Management Assignment or Proportionate Support Allocation that are excluded from normalized total generating cost ("TGC") have been determined based on proportionate support allocation. While the methodology set out by

ScottMadden allows for management assignment, no costs have been excluded from the 2019 TGC/MWh (Ex. F2-1-1, Chart 1) or 2020-2026 targets (Ex. F2-1-1, Chart 4) based on management assignment. As a result, controls related to management assignments are not applicable to the normalization methodology.

c) The normalization methodology established by ScottMadden is effective as it allows OPG to normalize Darlington's TGC/MWh for refurbishment by appropriately excluding certain costs from Darlington's TGC.

In accordance with the ScottMadden methodology, OPG allocated support costs to Darlington units undergoing refurbishment in a manner consistent with OPG's cost allocation methodology (Ex. F3-1-4). Both cost allocation methodologies appropriately allow for different ways of allocating each OPG support division/group's costs based on their respective cost drivers. In addition, each OPG support division/group's have different cost profiles driven by their work programs. Consequently, it was expected that OPG's application of ScottMadden's normalization methodology would result in different adjustment amounts for each OPG support division/group.