Board Staff Interrogatory #4

Interrogatory

Reference:
Exhibit A1 / Tab 3 / Schedule 2 / pp. 2, 8

Preamble:

OPG provided a chart that describes the proposed changes to the stretch factor (at Exhibit A1 / Tab 3 / Schedule 2 / p. 2 / Chart 1).

OPG noted that the nuclear stretch factor will reduce OPG's revenue requirement in respect of its operations OM&A costs (the sum of base, project and outage OM&A) and allocated corporate support OM&A costs, as well as nuclear operations and corporate support services in-service capital additions. The stretch factor would not apply to costs related to:

- The Darlington Refurbishment Program (DRP)
- Amounts eligible to be recorded in the Capacity Refurbishment Variance Account (CRVA)
- Amounts eligible to be recorded in the Nuclear Development Variance Account (NDVA)

Question(s):

a) Please confirm that the stretch factor approved in OPG's previous payment amounts proceeding (2017-2021 Payment Amounts Proceeding)[1] was determined based on the non-normalized, major operator level benchmarking results.

b) Please confirm that the stretch factor is applied to the revenue requirement associated with nuclear operations and support service in-service capital additions (as opposed to the capital in-service amounts directly).

c) Please provide a comprehensive list of all the cost categories (both OM&A and capital) to which the stretch factor is not applied. Please provide detailed rationale explaining why it is not appropriate to apply the stretch factor to each of these cost categories.

[1] EB-2016-0152.

Response

a) Confirmed. In its Decision and Order in the 2017-2021 Payment Amounts Proceeding, the OEB explained that it had adopted the major operator benchmarking as a basis for the stretch factor in part because both Pickering and Darlington stations would remain in-service during that rate period.[2] As described in Ex. A1-3-2, OPG has proposed that the stretch factor for the 2022-2026 period reflect the planned shutdown of the Pickering NGS during the 2022-2026 rate period.

b) Confirmed.

c) The stretch factor is not applied to the following categories of OM&A and capital costs:

CRVA-Eligible Costs
This category comprises capital and non-capital costs that are eligible for the Capacity Refurbishment Variance Account ("CRVA") established pursuant to O. Reg. 53/05, s. 6(2)(4), including the Darlington Refurbishment Program. As the OEB ruled in its Decision and Order in EB-2016-0152, OPG is entitled under the regulation to recover prudently incurred CRVA-eligible costs.[3] It would be inconsistent with that finding and the requirements of O. Reg. 53/05 if these prudent expenditures were reduced by a stretch factor.

New Nuclear Costs
Like CRVA-eligible costs, O. Reg. 53/05, s. 6(2)(4.1) requires that the OEB ensure that OPG recovers the prudently incurred non-capital costs and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities. These costs are subject to the Nuclear Development Variance Account. Accordingly, OM&A expenditures related to the development of new nuclear facilities are excluded from the stretch factor.

Centrally Held Costs
Most of the centrally held OM&A costs comprise several non-discretionary costs, the largest being IESO non-energy charges, which include the Global Adjustment and other non-discretionary fees and account for approximately two-thirds of the total centrally-held costs over the 2023-2026 period. Non-discretionary costs also includes nuclear insurance expenses, which flow from federal nuclear liability insurance requirements and are impacted by overall insurance market conditions. Accordingly, these are not areas where it would be reasonable to expect incremental cost reductions through efficiencies. While some parties in the prior

[2] EB-2016-0152, Decision and Order, December 28, 2017, p. 139.
[3] EB-2016-0152, Decision and Order, December 28, 2017, p. 23.

proceeding argued that centrally held costs should be included in the stretch factor, the OEB did not accept those submissions.[4]

Asset Service Fees

Asset service fees are charged to the nuclear business for certain real property and information technology ("IT") assets that are held by OPG centrally, as part of the unregulated business. While some of the costs included in the asset service fees are operational in nature, on balance, OPG does not foresee significant opportunities to realize efficiencies in these costs beyond those built already into the business plan cost targets. In particular, the main driver of the real property costs charged through asset service fees over the IR term is the new Clarington Campus Building as part of the company's Real Estate strategy, the operating cost savings from which are already reflected in the budgets.[5] For the IT assets, OPG's planned investments over the IR term are similarly critical to achieving operational and cost targets and improving internal processes and productivity, as well as to addressing increasing global cyber threats.[6]

[4] EB-2016-0152, OPG Reply Argument, p. 267.
[5] Ex. F3-1-1, Table 3.
[6] Ex. D3-1-1, Section 2.1.