Board Staff Interrogatory #264

Interrogatory

Reference:
Exhibit F3 / Tab 2 / Schedule 1 / pp. 2-3

Preamble:

Asset service fees are computed in a cost-based manner. The costs included in the computation of the asset service fees are depreciation expense, certain operating costs, property taxes, and a tax-adjusted return earned on these assets.

Question(s):

a) Please confirm that the asset service fee calculation is essentially a revenue requirement calculation.

b) Using Kipling / Wesleyville as the example, please provide:

   i. Asset service fee calculations for each year 2022-2026.

   ii. Revenue requirement calculations for each year 2022-2026 (assuming the asset was instead included in rate base using the same square footage-based allocation methodology to determine the amount to be apportioned to the nuclear business).

c) Please confirm that the proposed asset service fees for the Kipling / Wesleyville property and its Clarington Corporate Campus property are calculated in the same manner as the asset service fees were previously calculated for OPG's head office building.

Response

a) OPG confirms that, mathematically, the asset service fee calculation has resulted in largely the same outcome as would be derived from a revenue requirement calculation.

b) Attachment 1 provides the asset service fee (line 16) and theoretical rate base inclusion (line 17) calculations for Kipling / Wesleyville for the 2022-2026 period on the basis requested.[1] The difference between the two calculations is the simplifying

[1] See Ex. L-D3-01-Society-007, part h).

assumption used for asset service fee purposes that capital cost allowance equals depreciation expense. Additionally, neither calculation includes nor have the ratepayers been previously charged for costs related to the asset retirement obligation carried on OPG's balance sheet related to the Kipling and Wesleyville sites.

Asset service fees are not equivalent to rate base inclusion. Asset service fees represent cost-based charges incurred by the regulated operations for the use of a portion of certain unregulated assets, and are reflected as OM&A expenses and reported as such in OPG's audited consolidated financial statements and the audited financial statements of the prescribed facilities.[2] Correspondingly, since inception of the OEB's regulation of the prescribed facilities, the assets themselves have been excluded from rate base (and associated depreciation and amortization expenses) and do not form part of the prescribed facilities' balance sheet. The OEB has approved asset service fees as an OM&A expense in the revenue requirement in every proceeding since EB-2007-0905.

In preparing this response, OPG identified an error in the calculation of the above asset service fees for the 2022-2026 period. The correct amount represents a reduction of approximately $0.2M per year, which OPG will correct in preparing the draft payment amounts. The correct calculation is shown in Attachment 1.

c) Confirmed.

[2] For example, see Ex. L-A2-01-Staff-015, Attachment 1, p. 171 and Ex. A2-2-1, Attachment 3, p. 64.