Board Staff Interrogatory #30

Interrogatory

Reference:
Exhibit B1 / Tab 1 / Schedule 1 / p. 5

Preamble:

OPG stated that the net fixed / intangible asset portion of rate base is determined using a mid-year average methodology. For large in-service additions or adjustments, where the in-service addition amount or the amount of an adjustment exceeds $50 million, the month in which the addition or adjustment is reflected is used, instead of a mid-year average, to improve accuracy. There are nine nuclear in-service additions forecasted during the bridge years and Custom IR term in the amount of greater than $50 million.

Question(s):

a) Please provide rationale supporting the $50 million cut-off applied to in-service additions for using a monthly approach to calculating rate base.

b) Please confirm that the $50 million cut-off is applied to the annual in-service addition amount (and is not based on the total cost of the capital project).

c) For any capital project (both DRP-related and nuclear operations-related) that has an in-service addition amount in any year during the 2022-2026 Custom IR term that is greater than $5 million, please provide:

   i. The name of the project

   ii. The in-service amount in each year of the 2022-2026 Custom IR term where the in-service amount is greater than $5 million

   iii. The month in which the greater than $5 million asset is placed in service for each year noted in the response to part (c – ii)

Response

a) The threshold of $50M for applying the monthly approach to rate base calculations represents OPG's historical practice in use since its first cost-based application in EB-2007-0905, when it was first accepted by the OEB in the determination of rate base. Given the additional complexity to the rate base calculations presented by

the application of the monthly approach, OPG selected the threshold to be a relatively higher value so as to achieve increased precision for more material impacts, while keeping the instances of such calculations to a manageable level.

For context, OPG estimates that for each $50M in-service amount, using the monthly approach over a mid-year average improves the precision of the revenue requirement by about $2M. The impact is correspondingly lower for an in-service amount lower than $50M.

b) Confirmed, with a further clarification that the $50M threshold is applied to each individual in-service addition during a year. For example, this means that if there is a project with a major in-service addition over $50M in one month of the year and a smaller in-service addition of less than $50M later in the year, such as close-out costs, only the major in-service addition would be subject to the monthly approach.

c) OPG does not plan capital in-service additions below the $50M threshold by month beyond the budget year; such amounts are assumed to be placed in service at the mid-point of the year.[1] Accordingly, the requested information for amounts below $50M is not available. Such information for capital amounts over $50M is provided at Ex. B3-3-1, Table 2a, Note 1 for the 2022-2026 period.

[1] Ex. A2-2-1, Attachment 2, p. 18.