LPMA Interrogatory #4

Interrogatory

Ref: Exhibit B1, Tab 1, Sch. 1, Att. 1

Section 4.2 states with respect to PILS, OPG made 12 monthly payments in 2018, along with a one-time top-up payment from the 2017 tax year, which occurred in February. Table 21 shows this payment amount of $36.9 million with service lead days of 29.50 which is the mid-point between 1/1/2018 and 2/28/2018.

Please explain why the midpoint of 1/1/2018 to 2/28/2018 was used when the payment amount was related to 2017. Specifically, why are the service lead days not greater than 29.50, to reflect some portion of 2017 in the calculation?

Response

The following response was prepared by Navigant Consulting Inc. ("Navigant"):

The objective of a lead-lag study is to model expenses that reasonably reflect forward-looking business operations through the results period. In this case, Navigant did not consider the referenced "true-up" payment as a regular payment to be replicable in future years. Accordingly, Navigant modelled this payment with a midpoint of 1/1/2018 to 2/28/2018, such that its service lead would not have a significant impact on the overall PILS lead days. Had Navigant modelled the referenced payment with a service period beginning at the mid-point in 2017, for example, the resulting lead time for PILS would be 45.4 lead days, compared to 18.7 lead days.[1]

[1] OPG has estimated that using 45.4 lead days, instead of 18.7 days, for income tax expense would have a very small impact on the proposed rate base of -$2.4M, based on the cash working capital calculation at Ex. B1-1-2, Chart 2.