UNDERTAKING JT2.34

Undertaking

TO ADVISE IN WHICH PROCEEDING OR AT WHAT TIME THE BOARD WILL DETERMINE NOT JUST THE DISPOSITION, NECESSARILY, BUT THE POLICY ABOUT DISPOSITION, AND IF IT IS IN THIS PROCEEDING WHAT IS YOUR PROPOSAL.

Response

Background and Principles

On March 24, 2020, the OEB established a deferral account to track incremental costs and lost revenues arising from the COVID-19 emergency (the COVID-19 Emergency Deferral Account or "CEDA") noting that utilities may incur incremental costs as a result of the pandemic, the severity and duration of which was uncertain at that time. Over the ensuing months, the OEB has facilitated a consultative process (EB-2020-0133) with the objective of assisting it in the development of further guidance related to the CEDA, including additional clarity on the types of impacts that are eligible to be recorded and considered for disposition.

On December 16, 2020, as part of the consultative process, OEB staff submitted a proposal outlining their views on the scope of the CEDA and parameters to guide the disposition of any balances. OEB staff's proposal included the following recommendations:

- utilities should demonstrate a financial need for recovery of amounts in the CEDA (p. 3);
- the account would remain in operation for each regulated utility up to the effective date of a utility's next cost-based rate order (pp. 2, 30); and
- utilities should not be required to return any net gains related to incremental COVID-19 impacts, in the event that savings exceed costs, as the account was established to facilitate any claims for relief by utilities at a time when the pandemic was unknown (pp. 4, 17, 27).

OPG supports these positions of OEB staff as they relate to OPG, as noted in OPG's January 25, 2021 submissions to the consultation and further discussed below.

On April 13, 2021, the OEB issued a letter stating that while the regulatory principles underlying the CEDA consultation may be informative, the pandemic related impacts on OPG should be determined in a payment amounts proceeding, if not the current proceeding for 2022-2026 payment amounts, then another one.

Summary of 2020 and 2021 Impacts

With respect to 2020, OPG has recorded a net debit balance of $13.0M in the CEDA ($13.6M for nuclear and $(0.5M)[1] for regulated hydroelectric), comprised of incremental OM&A costs incurred net of OM&A cost savings.[2] During 2021, OPG forecasts incurring further incremental OM&A costs net of OM&A cost savings of $21.3M ($20.4M for nuclear[3] and $0.8M for regulated hydroelectric). These impacts, which total $34.3M (debit) over the two years, are further set out at lines 8-10 of Ex. L-A2-02-CCC-013, Attachment 1, Table 1 ("CCC-013 Table").

At lines 1-7, CCC-013 Table also sets out the 2020 (actual) and 2021 (projected) generation revenue margin impacts for OPG's nuclear and regulated hydroelectric operations associated with the COVID-19 pandemic, which, while not recorded in the CEDA given that they do not represent incremental costs or cost savings, total a net increase of $80.9M.

At lines 12-16, CCC-013 Table sets out the 2020 (actual) and 2021 (projected) impacts of the pandemic on CRVA-eligible OM&A costs, which total $1.3M (credit) and are being recorded in the CRVA. As discussed in Ex. L-A2-02-Staff-018, parts b) and c), OPG is also incurring DRP capital cost impacts as a result of the pandemic. None of the DRP impacts have been placed in service to date and none are included in the 2022-2026 capital in service amounts requested in this application. OPG continues to seek ways to manage the total cost of the project, including the COVID-19 impacts, within the $12.8 billion budget.

As noted at Ex. L-A2-02-Staff-018, part f) and further explained in Ex. JT3.05, OPG considers that there are no non-DRP impacts on OPG's proposed nuclear (or forecasted regulated hydroelectric) 2022-2026 rate base amounts associated with the pandemic, as OPG has managed such impacts incurred to date within existing project portfolio budgets.

OPG's Proposal Regarding 2020 and 2021 Impacts

OPG proposes that the policy for the disposition of the above impacts be addressed in the context of the current proceeding, as outlined below in alignment with OEB staff's December 16, 2020 proposal and O. Reg. 53/05 requirements.

Incremental OM&A Costs: Balances in the CEDA not to be recovered

As set out above, OPG's incremental OM&A costs of $34.3M related to the pandemic by the end of 2021 are projected to be fully offset by the net favourable revenue margin impacts of $80.9M. As such, consistent with the OEB staff's December 16, 2020 proposal, and with consideration to OPG's full proposal on the treatment of COVID-19

[1] Amount is less than $0.05M.
[2] Amounts differ from Ex. L-H1-01-Staff-320, Attachment 1, Table 1c, lines 16 and 43.
[3] Ex. L-H1-01-Environmental Defence-027, Attachment 1, Table 1, line 27.

impacts, OPG would propose not to seek disposition of the 2020 and 2021 CEDA balances in the current proceeding or any future proceeding.

Revenue Margin Impacts: Net gains considered as part of ROE performance

As noted, OPG supports the position of OEB staff's December 16, 2020 proposal that net gains related to the pandemic impacts are not intended to be returned to ratepayers as a distinct item and that the CEDA was not intended to serve as a true-up for any and all such impacts. The amount of OPG's net gain (excluding the CRVA eligible impacts) by the end of 2021 is $46.6M, being the difference between $80.9M in favourable revenue margin impacts and $34.3M in incremental costs discussed above.

The impacts of a net gain associated with the COVID-19 response are encompassed by the OEB's review of OPG's annual regulatory return performance. In particular, the 2021 impacts would form part of OPG's regulated earnings subject to the 2021 Overearnings Variance Account established by the OEB on its own motion in EB-2020-0248 to record any such earnings in 2021 that are more than 300 basis points above the OEB-approved return on equity ("ROE") as reflected in OPG's payment amounts in effect for 2021. The OEB also concluded in EB-2020-0248 that any overearnings for 2020 "are related to a past period," noting that "[a]s OPG's approved revenue requirement (including the regulatory ROE) was determined on an annual basis, the OEB does not find it appropriate to record any potential overearnings that may arise in the final months of 2020."[4] The EB-2020-0248 proceeding was informed by a forecast of OPG's 2020 and 2021 regulatory ROE provided by OPG in conjunction with its filing, in July 2020, of its 2019 annual regulatory ROE reporting. That information included the effects of the COVID-19 related revenue margin impacts and provided a forecast 2020 ROE which was more than 300 basis points above the OEB-approved ROE.[5]

CRVA Eligible Costs: Recorded in the CRVA

Pursuant to Section 6(2)4 of O. Reg. 53/05, the OEB is required to ensure that OPG recovers its capital and non-capital cost with respect to the DRP or otherwise incurred to increase the output of, refurbish or add operating capacity to a generation facility. The OEB established the CRVA to fulfill its obligation to permit the recovery of these costs subject to the costs being prudently incurred. The COVID-19 pandemic is like any other event that impacts a CRVA-eligible activity and to which OPG must respond within the project's execution. As stated in Ex. L-A2-02-Staff-018, part c), OPG is recording impacts arising from the pandemic on CRVA-eligible projects in the CRVA on this basis. OPG's proposal is that these impacts, including any DRP variance that may ultimately arise to the $12.8 billion budget,[6] be subject to normal course review and disposition of the account balance in a future proceeding.

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[4] EB-2020-0248 Notice of Proceeding and Accounting Order, November 9, 2020, p. 3.
[5] *Ibid*, p. 3.
[6] Ex. D2-2-7, p. 6.

Proposed Treatment of Any Incremental Post-2021 Impacts

The discussion below is intended to address the question posed by Ms. Girvan at Tr. Tech. Conf., May 7, 2021, p. 159, line 15, to p. 160, line 12, regarding OPG's proposed treatment of any incremental post-2021 impacts associated with the COVID-19 pandemic.[7]

Consistent with the OEB staff's December 16, 2020 proposal, OPG proposes that the availability of CEDA to OPG's nuclear and regulated hydroelectric operations be terminated as of the effective date of the final payment amounts order in this proceeding. To the extent material incremental costs or lost revenues arise related to COVID-19 after the effective date of the final payment amounts order in this proceeding, OPG would consider making an application for an available mechanism related to the treatment of unforeseen events for its nuclear and/or regulated hydroelectric facilities, as appropriate.

For the reasons set out above and as stated in Ex. L-A2-02-Staff-018, part e), OPG would continue to record any COVID-19 related impacts on the CRVA-eligible activities in the CRVA.

As noted in Ex. L-A2-02-CCC-013, part b), OPG has not forecasted any incremental non-DRP COVID-19 related impacts for the 2022-2026 period.

[7] Production-related COVID-19 impacts on 2022-2026 forecasts associated with response actions taken during the 2020-2021 period are discussed in Ex. JT1.21.