UNDERTAKING JT4.11

Undertaking

TO BRING DR. HIGGIN'S QUESTIONS AS REFLECTED IN THE TRANSCRIPT TO CONCENTRIC: EP-008: a) regarding risk related to variability of output quote, why is OPG more at risk related to its output than other generators, including against Bruce Power b) Concentric's view that IR plans are generally riskier than cost of service regulation... can this statement be verified based on the Ontario experience? c) ""IR plans are not designed to provide returns that meet fair return standard..."" Has OPG earned its allowed return on equity over the current IR term? What was OPG's average return on equity over the last IR period? Is this not counter to the statement Concentric makes in this response?"

Response

The following response was prepared by Concentric Energy Advisors:

a) Other North American regulated generators typically recover their fixed costs through a mix of fixed and variable rate components and/or have decoupling mechanisms in place that allow the utility to true-up revenues based on actual units delivered. OPG recovers its fixed costs on a purely volumetric basis, distinguishing OPG from a risk perspective. Bruce Power LP is not a rate-regulated generator and was not considered in Concentric's analysis.

b) Concentric is unaware of specific investment community views expressing that Ontario-specific incentive regulation plans are riskier than cost of service ("COS") regulation. Concentric's view, as stated in Ex. L-C1-01-Energy Probe-008, however, is consistent with that of DBRS Limited, which, in its regulated utilities' methodology, states that "DBRS Morningstar views COS as lower risk than IRM" (see: DBRS, "Methodology: Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry," October 2020, p. 15[1]).

c) In the current IR term to date, OPG has earned its allowed rate of return on equity in each of 2018, 2019 and 2020 and did not earn its allowed rate of return on equity in 2017.[2] Further details can be found in Ex. L-I1-01-SEC-159.

   Concentric's response in Ex. L-C1-01-Energy Probe-008 part (c) was not that utilities are unable to earn their allowed return under incentive regulation, but rather

[1] https://www.dbrsmorningstar.com/research/368939/rating-companies-in-the-regulated-electric-natural-gas-and-water-utilities-industry
[2] The available results for 2020 are preliminary, as noted at Ex. L-I1-01-SEC-159, p. 1, lines 24-25.

that incentive regulation plans are not designed to provide returns that meet the fair return standard. Rather, as stated in that response, it is the cost of capital that is set to meet the fair return standard, and the form of ratemaking (incentive regulation, cost of service or a hybrid (e.g., custom IR)) is established to allow the utility a reasonable opportunity to earn its allowed return, and may also contain incentives or penalties based on performance.