Board Staff Interrogatory #19

Interrogatory

Reference:
Exhibit A2 / Tab 2 / Schedule 1 / Attachment 1 / pp. 12-14
Exhibit I1 / Tab 1 / Schedule 1 / p. 2
Exhibit I1 / Tab 1 / Schedule 1 / Tables 4-5
EB-2020-0246 / Notice of Proceeding and Accounting Order / November 9, 2020 / Schedule A

Preamble:

OPG's 2020-2026 Business Plan sets out its forecast of net income during the 2020-2026 business planning period and discusses the reasons for the variations in net income.[1]

OPG provided its actual and forecast ROE for 2017-2021 (for the combined regulated business – both hydroelectric and nuclear) as set out in the following table.

	2017	2018	2019	2020	2021	Average
OPG ROE	5.91%	10.69%	15.61%	12.67%	10.24%	11.10%
OEB-Approved	9.16%	9.16%	9.16%	9.16%	9.16%	9.16%

OPG provided an explanation of the expected earnings variances for 2020 and 2021 in its 2019 Regulatory Return filing to the OEB.[2]

At the time of its 2019 Regulatory Return filing, OPG forecasted an ROE of 12.8% for 2020 and an ROE of 9.0% for 2021 (now updated to 12.67% for 2020 and 10.24% for 2021 in the application). Based on the ROE estimates available at the time of OPG's 2019 Regulatory Return filing, OPG explained that its response measures to COVID-19 are expected to have an impact on OPG's regulated ROE performance for 2020 and 2021. The single largest such impact related to a planned deferral of a Darlington NGS Unit 1 outage from the Fall of 2020 to 2021 to support the revised start date of the Darlington NGS Unit 3 refurbishment. OPG noted that, while the change in the Unit 1 outage timing is expected to increase the 2020 ROE above the 300 basis points deadband, to 12.8%, it will have a corresponding negative effect on the 2021 ROE, which OPG expects to be slightly below the OEB-approved ROE, at 9.0%.
Question(s):

[1] Note that some of the net income information provided in the 2020-2026 Business Plan was filed under confidential cover.
[2] EB-2020-0248 / Notice of Proceeding and Accounting Order / November 9, 2020 / Schedule A.

a) Please file the redacted version of the 2019 Regulatory Return filing on the record of this proceeding (including the cover letter).

b) For 2020, please update Table 4 at Exhibit I1 / Tab 1 / Schedule 1 to show the impact of the COVID-19 pandemic on each major line item for the nuclear business (i.e. nuclear production, indicated nuclear production revenue, total nuclear expenses, total nuclear cost of capital excluding ROE, nuclear deferral account adjustments, income tax and regulatory ROE).

c) For 2021, please update Table 5 at Exhibit I1 / Tab 1 / Schedule 1 to show the impact of the COVID-19 pandemic on each major line item for the nuclear business (i.e. nuclear production, indicated nuclear production revenue, total nuclear expenses, total nuclear cost of capital excluding ROE, nuclear deferral account adjustments, income tax and regulatory ROE).

d) Please explain how the COVID-19 pandemic-related costs that are recorded and / or tracked in OPG's DVAs are reflected in Tables 4 and 5 at Exhibit I1 / Tab 1 / Schedule 1.

e) Please provide a detailed explanation of the corrections that were made to Table 4 at Exhibit I1 / Tab 1 / Schedule 1 in the corrected evidence and confirm that those corrections impacted the estimated 2020 ROE.

f) Please confirm that the corrections made to Table 5 at Exhibit I1 / Tab 1 / Schedule 1 were for presentation purposes only and there were no errors that impacted the estimated 2021 ROE.

g) For the hydroelectric business segment, please quantify the impact of the COVID-19 pandemic on revenues, costs and regulatory ROE for each year of 2020 and 2021.

h) Please provide a detailed explanation of the drivers for the forecasted 2020 and 2021 earnings in excess of the OEB-approved ROE (for the combined regulated business).

i) Please explain the changes in the estimated ROE for 2020 and 2021 as presented in the application relative to the information provided in the cover letter for the 2019 Regulatory Return filing.

Response

a) Refer to Ex. L-H1-01-AMPCO-178, Attachment 1.

b) See Table 4 in Attachment 1, which reflects actual 2020 results.

c) See Table 5 in Attachment 1.

d) Typically, the applicable impact of DVAs additions is reflected in OPG's financial accounting, and regulatory accounting and ROE reporting, such that a debit addition to a DVA increases earnings and ROE and a credit addition decreases them. This is the case for the COVID-19 impacts captured in the CRVA. However, while OPG is tracking amounts in the CEDA, it has not recognized the earnings impact of these entries in its results pending further guidance on the account form the OEB.

e) As indicated in OPG's letter of March 12, 2021 accompanying the corrections, Table 4 was updated to reflect a correction to the value at line 20 and its presentation clarified by separating into lines 20 and 20a, with new line 20 reflecting a numerical correction in Table 4a, note 12 related to the calculation of tax components of deferral and variance accounts (first correction) and new line 20a now being consistent with Ex. F4-2-1, Table 3c, note 6, line (c) (second correction), both of which resulted in a change to 2020 ROE value. Specifically, the first correction aligned the value with the correct amount of tax expense recorded in deferral and variance accounts presented in Ex. H1-1-1. The second correction aligned the tax amounts for losses carried forward beyond 2017-2021 with the correct amounts shown at Ex. F4-2-1, Table 3c, note 6, line (c).

f) Confirmed.

g) See Tables 4 and 5 in Attachment 1.

h) Refer to Ex. L-I1-01-SEC-159.

i) There is no material change to the 2020 value in Ex. I-1-1 Table 4 relative to the information provided in the cover letter for the 2019 Regulatory Return filing; the difference mainly reflects an update to the estimated COVID-19 impacts.

The 2021 value in Ex. I-1-1 Table 5 was updated to reflect OPG's Amended 2020-2026 Business Plan that was approved in October 2020 and underpins this application. Additionally, during the finalization of the pre-filed evidence in December 2020, OPG discovered an error related to the capital cost allowance ("CCA") for the Darlington Refurbishment Program ("DRP") used in calculating the

2021 ROE, such that there was a mismatch between the CCA reflected in the tax calculations and in the corresponding addition to the Capacity Refurbishment Variance Account. This overstated the net expense and understated the ROE. The error was limited to the 2021 ROE calculation only, had no impact on any DVAs or other aspects of the application, and had no impact on other previously reported information.