CENTRALLY-HELD COSTS

1.0 PURPOSE

This evidence presents OPG's centrally-held costs and the period-over-period comparisons of centrally-held costs that are directly assigned and allocated to OPG's regulated facilities.

2.0 OVERVIEW

This evidence supports the approval sought for the centrally-held costs included in the 2022-2026 nuclear revenue requirements proposed in this application. The amounts included in the nuclear revenue requirements are $184.5M in 2022, $161.6M in 2023, $143.9M in 2024, $98.9M in 2025 and $14.7M in 2026.[1]

Centrally-held costs are an integral part of the costs of operating OPG's generation facilities. They are company-wide costs that are recorded centrally for a variety of reasons, such as achieving record-keeping efficiency and maintaining proper oversight. They are not Support Services costs.

Categories of centrally-held costs are separately identified for those exceeding $10M per year on average over the IR term. The category of "Other" reflects the remaining centrally-held costs, with a description of some of the more significant items provided in Section 7.0. The centrally-held cost items described below were identified in EB-2016-0152, EB-2013-0321, and EB-2010-0008, and the nature of these costs is unchanged.

Centrally-held costs continue to be directly assigned or allocated to OPG's regulated operations using the same methodology as in EB-2016-0152, EB-2013-0321 and EB-2010-0008, subject to the updates and refinements made to the methodology since EB-2016-0152 and reviewed by Elenchus (see Ex. F3-1-4). The methodology is applied to OPG-wide centrally-held costs presented in Ex. F4-4-1, Table 1, which results in costs attributed to the nuclear facilities presented in Ex. F4-4-1, Table 3. Exhibit F4-4-2, Tables 2a and 2b provide

[1] Ex. F4-4-1, Table 3, line 7

the period-over-period comparisons for the historical, bridge and IR term for the nuclear facilities and a comparison to the budgeted or OEB-approved amounts.

This evidence provides a description of the categories of centrally-held costs and discusses trends and variances for each category. The key drivers of these costs are identified within the discussions of trends and variances. Where these drivers do not adequately explain a year-over-year variance, a specific explanation is provided to the extent the variance is equal to or greater than 10%.

Total centrally-held costs decrease from 2016 to 2019 primarily as a result of lower pension and OPEB-related accrual costs. The costs are forecast to decrease further during the 2020-2026 period as pension and OPEB-related amounts decline, and as IESO non-energy charges are reduced following the planned Pickering shutdown.

3.0 PENSION AND OPEB-RELATED ACCRUAL COSTS

3.1 Description

Certain components of pension and OPEB accrual costs for all of OPG's employees and retirees continue to be included in centrally-held costs. These cost components include interest costs on the obligations, the expected return on pension plan assets, amounts in respect of past service costs, amounts in respect of actuarial gains and losses, and variances from the estimated current service cost amounts charged to OPG businesses and functions through standard labour rates. As in prior applications, the pension and OPEB-related accrual costs are directly assigned and allocated to the business segments in proportion to the pension and OPEB costs charged to the businesses, including amounts assigned and allocated as part of corporate Support Services costs.

3.2 Trends and Variances

Specific trends and variances in pension and OPEB accrual costs are discussed in Section 4.3 of Ex. F4-3-2. In summary, variability in the pension and OPEB accrual costs in the historical and bridge period is primarily related to: fluctuations in discount rates, updated inflation and salary escalation rate actuarial assumptions, differences in pension fund asset

values and, in 2016, the adoption of the Full Yield Curve Approach for determining the current service and interest cost components of the costs. Over the 2022-2026 period, the declining trend in these costs is mainly due to the impact of decreasing headcounts, and negative expected net growth in cost components from projected increases in pension asset values and lower amortization of historical net actuarial losses.[2]

4.0 OPG-WIDE AND NUCLEAR INSURANCE

4.1 Description

These are the costs of OPG's company-wide insurance program and the additional nuclear-specific insurance program. The company-wide program covers commercial general liability, directors and officers and fiduciary liability, all risk property, boiler and machinery breakdown, including statutory boiler and pressure vessel inspections, and business interruption.

As in prior OPG applications, the costs of the company-wide insurance program are primarily directly assigned to the business units based on the applicability of each type of insurance coverage and the asset replacement cost of the generation facilities. The nuclear-specific insurance program relates to liability insurance associated with nuclear operations and additional property insurance for damage to the nuclear portions of OPG's nuclear generating stations, which complements the conventional property insurance program. This portion of insurance costs continues to be directly assigned to the nuclear facilities.

4.2 Trends and Variances

Over the bridge and IR term, OPG-wide insurance costs are expected to increase relative to recent historical levels due to an insurance market where capacity is being restricted and premiums are increasing. This is driven by the start of a market-wide premiums revaluation process, which was triggered by an increase in attritional and catastrophic losses in 2017 and 2018 and further compounded by lower investment market return expectations. The

[2] As in previous proceedings, "expected net growth" (i.e., change) in cost components is used to refer to the net impact of the following: increases in current service costs due to the passage of time in the present value calculation, higher interest costs on a higher benefit obligation due to the passage of time, changes in the pension asset value due to expected earnings and expected unwinding of the market-related value, and related changes in amortization of historical actuarial gains or losses under the corridor approach.

revaluation stems from historical conditions that had resulted in low premium rate increases as insurers competed for market share, relying on investment returns to offset insurance losses. Additionally, losses as a result of COVID-19 may further tighten of the market. The limited supply of capacity enables insurance companies to charge higher rates for the capacity they choose to deploy. For OPG specifically, the cost of lost capacity is further compounded by the limited number of insurers for nuclear operators due to restrictive nuclear exclusions in treaties with reinsurers in providing capacity to the insurance market.

To mitigate these pressures, OPG has been communicating to insurers its low claim history, differentiating its risks by providing engineering reports to demonstrate the company's strong risk management and asset protection practices, and leveraging OPG's overall scale. In its July 2020 insurance renewal, for example, OPG was able to, in some cases, increase the capacity of or preserve most of the capacity from existing insurers at a less increased cost to moderate the overall pressure on the premiums. Additionally, through its broker's worldwide network, OPG reached out to all available markets to replace the lost capacity and was able to mitigate some of the increases, but confirmed that the number of available insurers continued to be limited. As insurers continue to sustain significant losses in claims, the insurance market place continues to experience pricing pressures subsequent to OPG's July 2020 renewal. The impact of the July 2020 renewal is reflected in the IR term forecast.

OPG expects the trend of increasing premiums to continue into the IR term for all lines of insurance before the increases start to level off. The significant decrease in forecast insurance costs in 2026 reflects the planned Pickering shutdown.

The increasing trend in nuclear insurance costs over the historical period reflects a phase-in of higher statutory nuclear liability insurance limits beginning in 2017 in accordance with the provisions of the *Nuclear Lability and Compensation Act*. As noted in EB-2016-0152, the legislation came into effect as of January 1, 2017, a year later than OPG's planning assumption for the 2016 budget, which drives the budget-to-actual variance in nuclear

insurance costs for the year.[3] In addition to the one-year delay in the phase-in of the higher nuclear liability limits, the lower actual/forecast nuclear insurance costs compared to OEB-approved amounts for 2017-2021 are largely due to lower than anticipated insurance premiums based on market conditions.

5.0 PERFORMANCE INCENTIVES

5.1 Description

These costs are for the pay for performance program that compensates OPG's management (i.e., non-unionized) employees based on the achievement of corporate and individual performance objectives. The costs are attributed to OPG businesses based on the labour costs of management employees (see Ex. F3-1-4).

5.2 Trends and Variances

Performance incentive costs are projected assuming achievement of target corporate performance and historical average payouts per employee, including any applicable assumptions on salary changes. The actual performance incentives vary over the 2016-2019, based on fluctuation in actual corporate scores, ranging from 0.93 (2016) to 1.19 (2017). Furthermore, in 2017-2019, the performance incentive was adjusted to reflect management's contribution toward achieving organizational efficiencies and other business imperatives, including reductions in permanent management positions that resulted in work being reallocated among the remaining management employees. The forecasted incentive costs remain generally stable over the 2020-2025 period, with a decline in 2026 reflecting the planned Pickering shutdown.

OPG's Management compensation, including the pay for performance program, is discussed in Ex. F4-3-1.

[3] EB-2016-0152, Ex. L-6.8-20 VECC-035.

6.0 IESO NON-ENERGY CHARGES

6.1 Description

IESO non-energy costs are charges that are applied to withdrawals of energy from the IESO-controlled grid. The charges include transmission charges, the debt retirement charge up to April 2018, the rural or remote electricity rate protection charge, charges associated with IESO administration fees, uplift charges, and the Global Adjustment. These charges are not discretionary and apply to all energy withdrawals from the IESO-controlled grid. The charges are directly assigned to the specific regulated facilities.

6.2 Trends and Variances

The fluctuations in the costs for the nuclear facilities over the 2016 to 2026 period are primarily due to the variability in Global Adjustment rates and the planned Pickering shutdown at the end of 2025. Differences in Global Adjustment rates also represent the principal cause of the variances between actual/forecast and OEB-approved amounts for the nuclear facilities for 2016 to 2021.

7.0 OTHER

7.1 Description

As in EB-2016-0152, Other costs consist of a number of relatively smaller items. In the IR term, these are comprised primarily of labour-related costs such as the fiscal calendar and labour balancing adjustments, and the vacation accrual. Additionally, in 2016 and 2017, the Ontario Nuclear Funds Agreement (“ONFA”) annual guarantee fee is included, which has not been required since 2018.

The fiscal calendar adjustment is a wage adjustment covering all business units that reflect the difference in the number of days between the 52 or 53 week fiscal calendar used for payroll accounting and OPG’s financial year ending on December 31. The adjustment is temporary and fluctuates from year to year, as the starting and ending days of the fiscal calendar vary from year to year. A negative adjustment (i.e., a reduction to costs) can occur in years when the fiscal calendar has 53 weeks. The costs (or a reduction to costs) are allocated to the business segments on the basis of payroll costs.

The labour balancing adjustments relate to non-pension and OPEB components of the standard labour rates. These adjustments capture variances (positive or negative) between the amount of such costs charged or planned to be charged to the OPG businesses and functions through standard labour rates and the final actual or planned amount of these costs.

The vacation accrual represents the cost to OPG of the estimated outstanding vacation entitlement for all of its employees and is allocated to the business segments on the basis of payroll costs.

The annual ONFA guarantee fee is the amount payable by OPG to the Province of Ontario, if required. In exchange for the fee, the Province of Ontario supports financial guarantees to the Canadian Nuclear Safety Commission by providing a guarantee relating to OPG's nuclear decommissioning and waste management liabilities and nuclear segregated funds pursuant to the ONFA. The fee has not been required since 2018 as the financial guarantee requirement has been satisfied by the forecast fair market value of the nuclear segregated funds without the requirement of a Provincial Guarantee. The ONFA and OPG's nuclear decommissioning and waste management liabilities are discussed in Ex. C2-1-1.

7.2 Trends and Variances

Variances in Other costs over the 2016-2021 period are mainly caused by the variability in labour balancing and fiscal calendar adjustments.

The labour balancing and fiscal calendar adjustments are the primary drivers of variability in the actual Other costs for the nuclear facilities over the 2016-2021 period, including relative to OEB-approved amounts. Actual amounts of the labour balancing adjustments are a function of each year's payroll related transactions processed by OPG on account of thousands of individual employees.

The decrease in costs in 2018 over 2017 was also due to no longer requiring the ONFA guarantee fee. This also contributed to the decrease in actual costs compared to OEB-

approved amounts in 2018, 2019 and 2021. This factor also partially offset the impact of higher labour balancing adjustments and other labour-related costs in 2020, relative to OEB-approved amounts.

The lower Other costs in 2017 over 2016 were due to the costs recorded in 2016 for non-pensionable lump sum payments for represented employees, which were negotiated as part of the prior round of bargaining in exchange for changes to pension plan provision and employee contribution levels, as discussed in EB-2016-0152.[4]

Over the IR term, Other costs are relatively stable, with the exception of a negative fiscal calendar adjustment in 2024. The negative fiscal calendar adjustment anticipated in 2024 is due to OPG's 2024 fiscal year being three days longer than the 2024 calendar year (the other fiscal years in the IR term are shorter than the respective calendar years). The decrease in the forecast costs in 2026 reflects the planned Pickering shutdown.

[4] EB-2016-0152, Ex. F4-3-1.