Board Staff Interrogatory #262

Interrogatory

Reference:
Exhibit F3 / Tab 1 / Schedule 4 / Attachment 1 / p. 22

Preamble:

OPG informed Elenchus that, beyond the 2020 organizational realignment, there are no significant changes to the functional structure or nature of costs of corporate support and operations support contemplated in the 2020-2026 Business Plan, including through the shutdown of Pickering NGS, which would impact the allocation of costs between OPG businesses. On this basis, Elenchus stated that the existing cost allocation methodology continues to be reasonable for OPG following the Pickering NGS shutdown. In the event functional activities, service delivery models or nature of the costs change materially after the shutdown is executed, the cost allocation methodology should be reviewed.

Question(s):

a) Please explain why a major event like the shutdown of Pickering NGS would not impact the allocation of costs between OPG's businesses.

Response

This response was prepared by Elenchus Research Associates:

a) To clarify the conclusion that appears at page 22 of Ex. F3-1-4, Attachment 1, it is only the cost allocation methodology that would remain unchanged following the Pickering NGS shutdown, not the resulting amount of allocated costs. The quantitative results of the allocation will change since the Pickering shutdown will change the allocators that the methodology relies on.

   As noted at the above evidence at page 15, OPG's cost allocation methodology reflects the nature of OPG's activities, directly assigning shared costs to OPG businesses where possible and, where it is not possible, using allocations based on cost drivers consistent with the cost causality principle. These principles and cost drivers will remain reasonable for OPG following the Pickering NGS shutdown. Applying the same principles and cost drivers before and after the shutdown will result in different allocated amounts of the costs.

For example, using labour dollars as part of the cost allocation methodology to allocate certain human resources costs will remain appropriate; what will change is the proportionate amount of labour dollars in the respective business segments driving the allocation results.