Board Staff Interrogatory #261

Interrogatory

Reference:
Exhibit F3 / Tab 1 / Schedule 4 / Attachment 1 / p. 19

Preamble:

Elenchus stated that OPG's change to the allocation methodology related to assigning management employee incentive costs on the basis of planned management labour cost dollars (as opposed to using incentive payments in the most recent year) recognizes the inherent uncertainty in translating the historical distribution of incentive payments to future periods.

Question(s):

a) Please explain how the use of management incentive payments across the OPG businesses in the most recent historical year as the basis (which would be based on actuals) would result in less certainty than planned management labour cost dollars (which would be based on estimates).

Response

This response was prepared by Elenchus Research Associates:

a) The Elenchus' full statement identified in the reference is: "Elenchus finds the change to be reasonable as it recognizes the inherent uncertainty in translating the historical distribution of incentive payments to future periods as OPG's business continues to evolve."

   To clarify, the reference to "inherent uncertainty" was intended to reflect the uncertainty of future changes that could cause a disconnect between historical-based cost drivers and the factors that drive the future costs being allocated to the different segments. This mismatch can be avoided by using forward-looking cost drivers to allocate costs.

   Perhaps the evidence of Elenchus would have been clearer if it referred to the "inherent mismatch," rather than the "inherent uncertainty," that would result if the time frames for the allocators and the costs being allocated were not consistent.

The reduction in management headcount related to the organizational realignment implemented by OPG in 2020 is an example of an inconsistency that can arise between historical year and forecast year distribution of incentive payments. Using an allocator based on prior period costs in this case would be less accurate than one that reflects the planned future management structure.