SEC Interrogatory #159

Interrogatory

Reference: I1-1-1, p.2

With respect to OPG's actual regulated ROE:

a. Please provide a detailed derivation of the OPG ROE amounts contained in Chart 1.
b. Please provide a detailed explanation of the drivers, and their specific contribution to the variance, between the actual/forecast and deemed ROE for each year between 2017 and 2021

Response

a) Refer to Attachment 1 (confidential) for the derivation of regulatory ROE dollar amounts, which are expressed as a percentage of rate base in Ex. C1-1-1 Table 10 (2017), Table 9 (2018)[1] and Table 8 (2019), and Ex. L-A1-02-Staff-002, Attachment 1, Table 5 (2020). Actual regulated ROE amounts fare provided at line 4, col. (c) of Attachment 1, Table 1 for 2017, Table 2 for 2018, Table 3 for 2019 and Table 4 for 2020. Detailed derivations are provided in the respective sub-tables of each table in the format consistent with OPG's annual Reporting and Record-keeping Requirements filing of actual regulatory return for the regulated business. The amounts for 2020 are preliminary, pending the completion of the 2020 tax return and update of the cash working capital.

For 2017-2019, there are minor differences between the ROE percentages presented in Ex. C1-1-1 and Ex. L-A1-02-Staff-002 per above and those reported at Ex. I1-1-1, Chart 1. The differences are the result of revised regulatory tax calculations that corrected the allocation of SR&ED investment tax credits between the regulated and unregulated hydroelectric businesses, as well as minor adjustments to rate base and cost of debt calculations. These corrections were identified through the preparation of the detailed evidence in support of this application.

Refer to Ex. I1-1-1, Table 5 for the derivation of 2021 projected regulated ROE.

b) A variance analysis of ROE between actual/projected to OEB approved is outlined below:

[1] For 2018, refer to corrected version of Ex. C1-1-1, Table 9 (April 29, 2021 version).

2017 Actual ROE

In 2017 OPG achieved an ROE of 6.02%, which is 3.1% below OEB approved ROE of 9.16%.[2] Main contributors for the variance are as follows:

- Delay in Effective Date (-7.5%): The effective date for OPG's new payment amounts in EB-2016-0152 was June 1, 2017 per the OEB's Decision with Reasons (December 28, 2017), with the EB-2013-0321 payment amounts remaining in effect for January 1 to May 31, 2017.
- Higher Nuclear Production (+4.0%): Nuclear production was 2.6TWh higher relative to OEB approved production; refer to Ex. E2-1-2.
- Lower Nuclear Outage OM&A (+1.7%): Mainly due to fewer planned outage days at Pickering and Darlington as set out in Ex. F2-4-2.
- Higher IESO Non Energy Charges (-1.0%): Mainly due to differences in Global Adjustment rates; refer to Ex. F4-4-1.
- Higher Remaining Nuclear OM&A (-3.1%): Mainly due to higher Nuclear Base OM&A and Allocated Support Services OM&A; refer to Ex. F2-2-2, Ex. F2-3-2, Ex. F3-1-2 and Ex. F4-4-1.
- Higher Regulated Hydroelectric Earnings (+2.1%)

2018 Actual ROE

In 2018 OPG achieved an ROE of 10.72% which is 1.6% above the OEB approved ROE of 9.16%. Main contributors for the variance are as follows:

- Nuclear Production (+3.7%): Higher nuclear production of 2.4TWh above OEB approved production. Refer to Ex. E2-1-2.
- Lower Nuclear Outage OM&A (+0.1%): Mainly due to fewer planned outage days at Pickering partly offset by more planned outage days Darlington as set out in Ex. F2-4-2.
- Higher IESO Non Energy Charges (-0.5%): Mainly due to differences in Global Adjustment rates. Refer to Ex. F3-1-2.
- Higher Remaining Nuclear OM&A (-1.6%): Mainly due to higher Nuclear Base OM&A and Allocated Support Services OM&A; refer to Ex. F2-2-2, Ex. F2-3-2, Ex. F3-1-2 and Ex. F4-4-1.
- Higher Nuclear Rate Base and Depreciation (-0.5%): Mainly due to higher cumulative capital in-service amounts; refer to Ex. B1-1-1.
- Higher Regulated Hydroelectric earnings (+0.4%)
- Higher Nuclear Regulatory income tax (-0.6%): Due to an increase in earnings before tax.

[2] Ex. I1-1-1, p. 2, footnote 2

2019 Actual ROE

In 2019 OPG achieved an ROE of 15.72% which is 6.6% above the OEB approved ROE of 9.16%. Main contributors for the variance are as follows:

- Nuclear Production (+6.5%): Higher nuclear production of 4.5TWh above OEB approved production. Refer to Ex. E2-1-2.
- Lower Nuclear Outage OM&A (+1.6%): Mainly due to fewer planned outage days at Pickering and Darlington as set out in Ex. F2-4-2.
- Higher IESO Non Energy Charges (-0.9%): Mainly due to differences in Global Adjustment rates. Refer to Ex. F3-1-2.
- Higher Remaining Nuclear OM&A (-0.3%): Mainly due to higher Nuclear Base OM&A and Allocated Support Services OM&A; refer to Ex. F2-2-2, Ex. F2-3-2, Ex. F3-1-2 and Ex. F4-4-1.
- Higher Nuclear Rate Base and Depreciation (-0.5%): Mainly due to higher cumulative capital in-service amounts; refer to Ex. B1-1-1.
- Higher Regulated Hydroelectric earnings (+1.2%)
- Higher Nuclear Regulatory income tax (-2.0%): Due to an increase in earnings before tax.

2020 Preliminary Actual ROE

In 2020 OPG's preliminary actual ROE is 17.12% which is 8.0% above the OEB approved ROE of 9.16%. Main contributors for the variance are as follows:

- Nuclear Production (+8.4%): Higher nuclear production of 6.4TWh above OEB approved production. Refer to Ex. E2-1-2 and additional variance discussion to the 2020 budget in Ex. L-A1-02-Staff-002.
- Interim Period Shortfall Rider (+1.4%): Incremental recovery of EB-2016-0152 interim period shortfall rider as a result of higher nuclear production.
- Lower Nuclear Outage OM&A (+1.2%): Mainly due to fewer planned outage days at Pickering and Darlington as set out in Ex. F2-4-2.
- Higher IESO Non Energy Charges (-0.9%): Mainly due to differences in Global Adjustment rates. Refer to Ex. F3-1-2.
- Higher Remaining Nuclear OM&A (-1.0%): Mainly due to higher Nuclear Base OM&A and Allocated Support Services OM&A; refer to Ex. F2-2-2, Ex. F2-3-2, Ex. F3-1-2 and Ex. F4-4-1 and additional variance discussion to the 2020 budget in Ex. L-A1-02-Staff-002.
- Higher Nuclear Rate Base and Depreciation (-0.7%): Mainly due to higher cumulative capital in-service amounts; refer to Ex. B1-1-1.
- Lower Cost of Debt Rates (+0.3%)
- Higher Regulated Hydroelectric earnings (+1.5%)

- Higher Nuclear Regulatory income tax (-2.7%): Due to an increase in earnings before tax.

2021 Forecast ROE

In 2021 OPG's forecast ROE is 10.24% which is 1.1% above the OEB approved ROE of 9.16%. Main contributors for the variance are as follows:

- Nuclear Production (+3.4%): Higher nuclear production of 2.9TWh above OEB approved production. Refer to Ex. E2-1-2.
- Higher Nuclear Outage OM&A (-0.9%): mainly from more planned outage days at Darlington partly offset by fewer planned outage days at Pickering as set out in Ex. F2-4-2.
- Higher IESO Non Energy Charges (-0.8%): Mainly due to changes in global adjustment. Refer to Ex. F3-1-2.
- Higher Remaining Nuclear OM&A (-1.0%): Mainly due to higher Nuclear Base OM&A and Allocated Support Services OM&A; refer to Ex. F2-2-2, Ex. F2-3-2, Ex. F3-1-2 and Ex. F4-4-1.
- Higher Nuclear Rate Base and Depreciation (-1.1%): Mainly due to higher cumulative capital in-service amounts; refer to Ex. B1-1-1.
- Higher Regulated Hydroelectric earnings (+1.9%)
- Lower Cost of Debt Rates (+0.4%)
- Higher Nuclear Regulatory income tax (-0.6%): Due to an increase in earnings before tax.