Board Staff Interrogatory #345

Interrogatory

Reference:
Exhibit I1 / Tab 3 / Schedule 2 / pp. 8-13

Question(s):

a) Please confirm that it is Alternatives A-C that fail the financial viability metrics.

b) Please confirm that none of OEB staff's requested alternatives fail the financial viability metrics.

c) Please explain why OPG believes that having higher bill impacts in 2022 (relative to the remainder of the 2022-2026 Custom IR term) is optimal from a rate stability perspective.

d) Please advise whether customers that participated in the customer engagement activities related to rate smoothing were made aware of the magnitude of the interest costs they would be required to pay to implement rate smoothing.

Response

a) OPG confirms that Alternatives A-C fail the financial viability metrics.

b) As shown in Attachment 3 of Ex. L I1-03-Staff 344, each alternative proposed by OEB Staff (F,G, and H) fail on both of the financial viability metrics. OPG has provided alternative I, in which the financial viability metrics are above the threshold for Cash Flow from Operations Pre Working Capital to Debt Ratio or "CF to Debt" (consistent with OPG's proposal) but interest costs are capped at $500M (per OEB Staff's proposal).

c) As set out at Ex. I1-3-2, OPG's proposal was developed with a view to achieve a balance over the deferral and recovery periods between customer impacts and the costs of the deferral, as well as the impact on OPG's financial risk as measured using the financial viability criteria. Consistent with EB-2016-0152, the financial viability criteria have been set to ensure that at least one of the two financial metrics, as used by the credit rating agencies, remain within threshold during the period. The higher bill impacts in 2022 reflect the required increase in the nuclear payment amount in order to meet the financial viability criteria. Under OPG's proposal, only one of the financial metrics is within threshold during the period (CF to Debt).

A WAPA increase of less than 4% in 2022 is projected to result in an CF/Debt ratio below the threshold, which would fail the financial viability criteria and increase financial risk, particularly as it is in the earlier years of the 2022-2026 period that the credit metrics are expected to be under greater pressure. In its proposal, OPG has sought to balance the larger increase in 2022 by holding the 2023-2026 increases at the lowest level possible while managing overall interest costs to customers over the deferral and recovery period. Thus, while OPG's proposal achieves somewhat less rate stability than, for example, Alternative C, OPG believes that the proposal provides an optimal balance of the customer-focused and financial viability considerations.

d) Customers were not provided with a specific total interest amount associated with rate smoothing, since OPG had not yet prepared the business plan underlying this application. However, customers were informed that rate smoothing spreads costs out over a longer period, smoothing out increases in rates at the cost of increased interest over time. Customers were provided with three indicative smoothing scenarios, with varying combinations of directional impact of smoothing and relative interest costs, as shown below (excerpted from Ex. A2-2-1, Attachment 4, p. 42):

Figure 1

	Scenario	Bill increase	Interest cost
☐	Scenario A: High level of smoothing	Produces the steadiest bills.	Highest total interest costs (approx. $500M higher than Scenario B and approx. $1B higher than Scenario C).
☐	Scenario B: Medium level of smoothing	Produces steadier bills than Scenario C, but less steady bills than Scenario A	Total interest costs that are approx. $500M less than Scenario A, but approx. $500M higher than Scenario C.
☐	Scenario C: Low level of smoothing	Produces higher bills in the 2020s, but lower bills in the 2030s.	Lowest total interest costs of the three scenarios (approx. $500M lower than Scenario B and approx. $1B lower than Scenario A).
☐	Don't know		

Overall, customers preferred at least a "medium" level of smoothing, which entailed interest costs of at least $500M. While the "medium" approach was not based on a specific smoothing scenario, the total interest costs presented to customers in that scenario are generally consistent with OPG's proposal, which projects total interest costs of approximately $600M, as shown in Ex. I1-3-2, p. 8.