

UNDERTAKING J1.1

Undertaking

OPG TO PROVIDE AN ILLUSTRATIVE EXAMPLE OF HOW THE EARNINGS SHARING MECHANISM CALCULATION WOULD WORK, USING APPROPRIATE PROXY NUMBERS

Response

Provided below is an illustrative example for recording entries into the Earnings Sharing Deferral Account pursuant to the earnings sharing mechanism ("ESM") included within the Settlement Proposal (Ex. O1-1-1, p. 18). The example has been constructed such that there is an eligible amount to be recorded in the deferral account.

As noted in the Settlement Proposal, the parties agreed to an ESM based on the performance of the combined nuclear and regulated hydroelectric business on an asymmetrical basis, with a 100-basis point deadband above the OEB-approved Return on Equity ("ROE") rate and 50/50 sharing beyond the deadband, which will be assessed over the cumulative 5-year period from 2022-2026. The 50% sharing amount would be recorded as a credit to the Earnings Sharing Deferral Account, to be dispositioned following the 5-year period. The parties further agreed that, for this purpose, the OEB-approved ROE rate for the regulated hydroelectric facilities will be the rate base-weighted average of the OEB-approved ROE rate of 9.33% established in EB-2013-0321.¹ For the nuclear facilities, the calculation will be based on the prevailing ROE rate specified by the OEB as of the effective date of the final payment amounts order in this proceeding.

In Table 1 below, the example illustrates the calculation of the OEB-approved ROE rate as set out above. Table 2 below shows the determination of the annual regulated earnings dollar amount, if any, above the deadband and the application of the cumulative 5-year assessment to determine amounts recorded in the deferral account. Other than the EB-2013-0321 ROE rate, all figures in the Tables are hypothetical.

Table 1: Calculation of OEB Approved ROE Rate for ESM Purposes

Line	Description	2022	2023	2024	2025	2026
A	EB-2020-0290 OEB Approved ROE Rate (%)	8.34%	8.34%	8.34%	8.34%	8.34%
B	EB-2013-0321 OEB Approved ROE Rate (%)	9.33%	9.33%	9.33%	9.33%	9.33%
C	Nuclear Rate Base (\$M)	\$8,700	\$8,700	\$11,100	\$12,300	\$13,100
D	Hydroelectric Rate Base (\$M)	\$7,800	\$8,000	\$8,200	\$8,500	\$8,900
E	OEB Approved ROE Rate	8.81%	8.81%	8.76%	8.74%	8.74%

¹ Average of the 2014 ROE rate of 9.30% and the 2015 ROE rate of 9.36%, as approved in EB-2013-0321.

1 **Table 2: Calculation of Earnings Above Deadband and Deferral Account Entry**

Line	Description	Ref	2022	2023	2024	2025	2026	Cumulative
F	Actual Nuclear Regulated Earnings (\$M)		\$300	\$370	\$500	\$550	\$500	
G	Actual Hydroelectric Regulated Earnings (\$M)		\$400	\$400	\$400	\$400	\$400	
H	Total Actual Regulated Earnings (\$M)	$(F + G)$	\$700	\$775	\$900	\$950	\$900	
I	Actual Nuclear Rate Base (\$M)		\$8,700	\$8,700	\$11,100	\$12,300	\$13,100	
J	Actual Hydroelectric Rate Base (\$M)		\$7,800	\$8,000	\$8,200	\$8,500	\$8,900	
K	Actual Total Rate Base (\$M)	$(I + J)$	\$16,500	\$16,700	\$19,300	\$20,800	\$22,000	
L	OEB Approved Equity %		45%	45%	45%	45%	45%	
M	OEB Approved ROE Rate (%)	<i>Line E</i>	8.81%	8.81%	8.76%	8.74%	8.74%	
N	Deadband ROE Rate (%)	$M + 100bps$	9.81%	9.81%	9.76%	9.74%	9.74%	
O	Deadband Regulated Earnings (\$M)	$K \times L \times N$	\$728	\$737	\$848	\$912	\$964	
P	Regulated Earnings Variance to Deadband (\$M)	$H - O$	\$(28)	\$38	\$52	\$38	\$(64)	\$36
Q	Deferral Account Entry (\$M)	$P \times 50\%$						\$18.0

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