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## BY RESS

June 25, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto, Ontario  
M4P 1E4

Dear Ms. Marconi:

### **Re: EB-2024-0136 – Stakeholder Consultation on the Review of OPG Filing Guidelines**

Ontario Power Generation Inc. (“OPG”) provided initial comments on June 11, 2024 (“Initial Submissions”) on the Ontario Energy Board’s (“OEB”) proposed updates to the OPG filing guidelines (now referred to as filing requirements) (“Filing Requirements”). OPG appreciates the opportunity to provide additional comments in response to the submissions of other parties filed on June 11, 2024.

OPG values the time and thought that intervenors have devoted to their submissions and has carefully considered their positions in developing this response. In the interest of brevity, these comments only address areas where OPG perceives a difference between its views and those advanced by intervenors or areas where intervenors’ submissions contain new proposals. For ease of review, these comments use the same section headings as the Filing Requirements, but include only those sections where OPG has additional comments.

### **Section 2.6 Key Planning Parameters**

OPG’s comments for this section are in the three areas set out below.

#### International Financial Reporting Standards (“IFRS”)

The proposed Filing Requirements provide that OPG should follow the OEB’s existing IFRS transition guidance in the *Report of the Board: Transition to IFRS dated July 28, 2009* and subsequent amendments and addendum (“IFRS Report”) and that the OEB would consider OPG’s transition to IFRS in the context of the policies established in the IFRS Report as well as transitioning away from capitalized overheads. As indicated in OPG’s Initial Submissions, OPG does not have concerns with these requirements. OPG understands that these requirements are intended to apply to a payment amounts application covering a period during which OPG anticipates transitioning to IFRS. In its submission however, the London

Property Management Association (“LPMA”) suggested broadening this requirement to apply to any application covering a period where it is a possibility that OPG may transition to IFRS.

OPG submits that there is no value in discussing the implications of a potential transition to IFRS until OPG plans to undertake such a transition. As shown in the filings of other regulated companies regarding this transition,<sup>1</sup> planning the move from US GAAP to IFRS is a complex, detailed, labour intensive and company-specific endeavour. Furthermore, this work is typically anchored around a specific transition date, as different dates can drive different impacts. Unless OPG is preparing for a transition to IFRS during the period covered by a payment amounts application, OPG would not have the information on the specific implications and their scope, nor would OPG have developed a proposal for the regulatory treatment of such implications (taking into account the IFRS Report). OPG notes that this same approach was followed both in its EB-2016-0152 and EB-2020-0290 applications.

Under LPMA’s proposal, OPG effectively would be required to provide evidence on impacts of a potential IFRS transition and their treatment in every future application based on US GAAP because, even if OPG had no plans to transition at the time of filing, there would almost always be a possibility that a transition to IFRS could take place over a five-year period covered by the application. OPG submits that this is not an appropriate or practical threshold for filing requirements and should not be adopted.

LPMA also proposes that OPG should be required to file “a separate section in their evidence that shows the potential impact of transitioning away from capitalizing indirect overheads including the impacts on OM&A, rate base, cost of capital, depreciation and taxes.” (LPMA, p. 4) This proposal is not relevant because OPG’s policy under US GAAP has been and continues to be to capitalize only those overhead costs that are directly attributable to the acquisition or construction of an asset.<sup>2</sup> Therefore, there is no need to consider the potential for transitioning away from capitalizing indirect overheads, whether in the context of a transition to IFRS or otherwise.

### Year-over-Year and Term-over-Term Analysis

The parties’ submissions have generally expressed that year-over-year variance analysis has value and should be retained. As set out in OPG’s Initial Submissions, OPG holds a similar view with respect to operating, maintenance and administration (“OM&A”) costs, other than Project OM&A, and does not have concerns with additionally providing a term-over-term analysis for these items. For the reasons provided in OPG’s Initial Submissions, OPG continues to believe that year-over-year analysis has limited value for capital and Project OM&A costs and that term-over-term analysis would be more meaningful in these areas.

LPMA has raised several questions about how OPG would perform a term-over-term analysis as proposed by OEB staff. With reference to what OEB staff have set out in this regard in the proposed edits on page 6 of the draft Filing Requirements, OPG understands this to be a comparison of the actual (historical year) and forecasted (bridge year) information for the prior payment amounts term (for example, aggregate of such information for 2022-2026) against OPG’s proposed amounts for the next payment amounts term (e.g., aggregate of such information for 2027-2031). OPG also observes that footnote 1 at page 1 of the draft Filing Requirements indicates that, in general, the requirements are predicated on a five-year payment amounts term.

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<sup>1</sup> See, e.g., Hydro One Networks Inc., EB-2021-0110, Ex. A6-1-1, “US GAAP to IFRS Conversion Impact Review – PWC, dated: June 17, 2021.”

<sup>2</sup> See, e.g., EB-2020-0290, Ex. D4-1-1, p. 1.

### Minimum Number of Historical Years and Next Hydroelectric Rebasing Application

OPG's Initial Submissions outlined a proposal to provide, in the next hydroelectric rebasing application, historical actual information for the hydroelectric facilities going back to 2016, with earlier years having less granularity in recognition of the significant manual effort and assumptions that would be required to normalize such information for multiple historical reorganizations in order to be comparable with the more recent historical years and as well as the forward-looking years. In this regard, the School Energy Coalition ("SEC") acknowledged that there may be "valid limitations on the granularity of the data that can be provided without an unreasonable level of effort because of the passage of time", while reserving its right to request such more granular information if it becomes critically important as part of the review of OPG's application. (SEC, p. 3)

SEC, along with other parties, also expressed that OPG should file historical information for regulated hydroelectric operations going back beyond 2016, to the last rebasing application that covered years 2014 and 2015. However, OPG's Initial Submissions explained, based on a preliminary feasibility assessment, that due to the passage of time OPG does not have the necessary data to normalize the 2014 and 2015 historical actual OM&A costs and compensation and benefits information (as well as staffing information) for the regulated hydroelectric business on a comparable basis with the rest of the application, due to the organizational changes over the decade. As such, OPG noted that any such historical data prior to 2016 would have little to no value to the proceeding and could not be meaningfully integrated with the rest of the application. OPG also indicated that it would be able to provide hydroelectric rate base and associated capital projects in-service listings going back to 2013, on a total regulated hydroelectric basis.

OPG remains of the view that its proposal as outlined in the Initial Submissions is reasonable and appropriate in the circumstances and, with nine years of historical information (expected to be 2016-2024) and two years of bridge information (expected to be 2025-2026), would provide a sufficient basis to ascertain any OM&A cost trends, which is the main purpose of including such past data in a forward test-year application. No intervenor submission has explained why a total of as many as 11 historical years of actual information (expected to be 2014-2024) will be necessary to review the rebasing application. OPG believes that historical data that will be more than 10 years old by the time the next rebasing period begins (expected to be 2027-2031) will not reflect the current operational needs and circumstances of OPG's hydroelectric business and would not assist in ascertaining trends. OPG also believes that, due to the passage of time, no relevant conclusions could be reasonably drawn with respect to the 2027-2031 period from a comparison of OPG's forecasts for the 2014-2015 period to the actual results.

Notwithstanding the above, since making its Initial Submissions, OPG completed the feasibility assessment for providing any historical information for the regulated hydroelectric business for 2014 and 2015. OPG can confirm that, if the OEB determined this information to be relevant, OPG would only be able to file, on a best efforts basis, historical actual OM&A data for 2014 and 2015 at a total regulated hydroelectric level and limited to a format similar to EB-2013-0321, Ex. F1-1-1, Table 1, Ex. F3-1-1, Table 1 and Ex. F4-4-1, Table 2.<sup>3</sup> OPG does not have the data necessary to provide any further breakdown of this OM&A information, or to provide any variance explanations.<sup>4</sup> Furthermore, as OPG stated in its Initial Submissions, for any such high-level information that OPG is able to provide, it could not normalize it for comparability with the 2016 onwards period.

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<sup>3</sup> OPG has not yet determined whether it would be able to separately show Base OM&A and Project OM&A as set out in EB-2013-0321, Ex. F1-1-1 or whether this information would be available only in aggregate.

<sup>4</sup> OPG also does not have the data to provide any information for compensation and benefits or staffing levels for 2014 and 2015.

## **Section 6      Exhibit D Capital Projects**

Contrary to a number of parties' submissions, OPG continues to believe that the 2011 project thresholds used to determine the information required to be filed are no longer appropriate and should be adjusted as proposed in OPG's Initial Submissions to reflect cost increases over the 13 years since they were established. Absent these changes, the continued use of the 2011 thresholds, as advocated by intervenors other than LPMA, will perpetually reduce regulatory efficiency by requiring the provision of detailed information for relatively smaller and smaller sized projects in each subsequent application.<sup>5</sup> Contrary to SEC's submissions, provision of this information requires substantial resources on OPG's part because each of the dozens of business cases filed<sup>6</sup> must undergo a line-by-line review for confidential information and be redacted to remove such information. OPG expects that each business case filed also requires substantial resources for the OEB to review and disposition the proposed redactions.

SEC's comparison between the project thresholds and OPG's historically used materiality threshold of \$10 million is not a valid one, as the two concepts are not comparable. The materiality threshold is determined on an annualized revenue requirement basis, whereas the project threshold is based on the full cost of a project. An annual revenue requirement impact of a typical capital project with a \$20 million cost is far less than \$10 million. In fact, a \$10 million annual revenue requirement would correspond to a capital cost that would be notably higher than OPG's proposed project threshold of \$40 million.

AMPCO notes that, based on information filed in EB-2020-0290, OPG's internal thresholds for project review and approval, specifically with respect to the Nuclear Asset Management Oversight Committee ("NAMOC"), similarly uses a review threshold of \$20 million. OPG notes that, in recognition of the size of investments being brought to the committee and OPG's approval requirements, the current equivalent of the NAMOC updated its review thresholds in 2022 and now reviews investments over \$60 million instead of \$20 million. Furthermore, OPG respectfully submits that there are differences in mandates as between OPG's internal management review and the OEB's prudence review of completed projects' costs in the context of a payment amounts application and therefore the thresholds do not need to be the same.

OPG also continues to believe that the necessary adjustments to the thresholds need not be the same as between capital and OM&A projects and that there should be adjustments to the variance analysis thresholds (from 10% to 20%) for Tier 1 capital projects and OM&A projects, as set out in OPG's Initial Submissions.

## **Section 8      Exhibit F Operating Costs**

### OM&A Cost Variance Analysis Thresholds

Similar to its position with respect to project thresholds as set out under Section 6 above, OPG continues to believe that the threshold for detailed information for purchased services and products should be increased as set out in its Initial Submission, to reflect inflationary effects over time. OPG submits that none of the intervenors proposing to retain the current thresholds have articulated a compelling reason as to why it is appropriate to ignore these effects.

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<sup>5</sup> To be consistent with OEB staff's proposal to keep the Filing Requirements evergreen, the OEB could consider indexing the thresholds using appropriate cost indexes, such as building construction cost indexes for capital and Project OM&A (Statistics Canada, Building Construction Price Indexes (Table 18-10-0276-01)), and Consumer Price Index for all other OM&A costs.

<sup>6</sup> The existing thresholds resulted in the filing of 84 capital and Project OM&A business cases, for the nuclear operations, in the EB-2020-0290 application. This number is likely to be significantly higher in the upcoming application given that regulated hydroelectric business cases would be included.

LPMA has proposed that a minimum dollar value threshold be added to the existing percentage thresholds for OM&A cost variance explanations, such that the analysis would be required for any variance that is greater than or equal to the greater of 10% of category expenses and a dollar value threshold. OPG supports LPMA's proposal as it would enhance regulatory efficiency by focusing the evidence away from the smaller items. OPG proposes a modest threshold of \$5 million for this purpose.

**Section 9      Exhibit G Operating Revenue (to be renamed to Other Revenue)**

Energy Probe submitted that neither year-over-year or term-over-term analysis is useful in the area of Other Revenues, while Consumers Council of Canada proposed retaining the existing year-over-year analysis requirements and LPMA suggested including term-over-term analysis in addition to the year-over-year analysis. OPG remains of the view that the year-over-year analysis requirements in this area are sufficient, but does not have concerns with adding a term-over-term analysis if the OEB determines it to be of value.

Should there be any questions regarding these submissions, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Evelyn Wong', with a stylized, flowing script.

Evelyn Wong

cc:      Saba Zadeh, OPG  
         Aimee Collier, OPG  
         Charles Keizer, Torys LLP