

SEC Interrogatory #212

Interrogatory

**Reference:
H1-1-1, p. 50**

Question(s):

With respect to the Earnings Sharing Deferral Account, based on OPG's 2026 budgeted production forecast, included in this application, please provide an estimate of the year-end 2026 balance for the account. Please provide all supporting calculations.

Response

Based on OPG's 2026 forecast information included in this Application, including the 2026 budgeted production forecast, and the 2025 preliminary actual results as provided in Ex. L-11-Staff-266, Attachment 2, the estimated year-end 2026 balance for the forecast Earnings Sharing Deferral Account is nil. Refer to Chart 1 below for the supporting calculations.

Chart 1 - OPG's Regulated Earnings Above Deadband and ESM Deferral Account Entry for 2022-2026 (\$M)

Line No.	Description	Actual 2022	Actual 2023	Actual 2024	Preliminary Actual 2025	Forecast 2026	Forecast Cumulative
		(a)	(b)	(c)	(d)	(e)	(a+b+c+d+e)
1	Actual Nuclear Regulated Earnings ¹	477.1	726.8	46.0	878.6	214.5	
2	Actual Hydroelectric Regulated Earnings ¹	430.0	355.1	459.1	355.6	375.3	
3	Total Actual Regulated Earnings (line 1 + line 2)	907.0	1,082.0	505.1	1,234.1	589.8	
4	Actual Nuclear Rate Base Financed by Capital Structure ²	8,506.0	9,551.2	11,039.0	12,783.3	14,653.6	
5	Actual Regulated Hydroelectric Rate Base Financed by Capital Structure ²	7,734.7	7,990.0	8,124.4	8,283.7	8,610.5	
6	Actual Total Rate Base Financed by Capital Structure (line 4 + line 5)	16,240.8	17,541.2	19,163.4	21,067.0	23,264.1	
7	OEB-Approved Equity %	45%	45%	45%	45%	45%	
8	OEB-Approved ROE Rate for Earnings Sharing % ³	8.98%	8.97%	8.94%	8.92%	8.91%	
9	Deadband ROE Rate % (line 8 + 100bps)	9.98%	9.97%	9.94%	9.92%	9.91%	
10	Deadband Regulated Earnings (line 6 x line 7 x line 9)	729.3	786.6	857.5	940.8	1,037.3	
11	Regulated Earnings (Deficiency) Variance to Deadband (line 3 - line 10)	177.7	295.3	(352.5)	293.4	(447.4)	(33.4)
12	Estimated Provision for Income Tax (line 11 x 25%/(1-25%))						(11.1)
13	Gross Earnings (Deficiency) Variance to Deadband (line 11 + line 12)						(44.6)
14	Deferral Account Entry (line 13 X 50%, if line 11 > 0)						0.0

¹ 2022-2024 per Table 2, line 13 of revised annual regulatory return filed on March 10, 2026 for these years. Preliminary actual 2025 per Ex. L-I1-Staff-266, Attachment 1, Table 2, line 13. Forecast 2026 per Ex. I1-1-1, Table 5, line. 23, col. (c) .

² 2022-2024 per Table 2a, line 4a of revised annual regulatory return filed on March 10, 2026 for these years. Preliminary 2025 per Ex. L-I1-Staff-266, Attachment 1, Table 2a, line 4a. Forecast 2026 per Ex. L-I1-Staff-266, Attachment 2, Table 2a, line 4a.

³ OEB-Approved ROE Rate % weighted by actual rate base financed by capital structure for 2022-2025, and the equivalent budget rate base for 2026. See Chart 2 below.

1
2
3
4
5
6

1 **Chart 2 - OPG's OEB-Approved Return on Equity for 2022-2026 (\$M)**

Line No.	Year	OEB Approved Return on Equity		Actual and Budgeted Rate Base Financed by Capital Structure ³		$\frac{(b) \cdot (d)}{((d) + (e)) + (c) \cdot (e)}$ $\frac{(e)}{((d) + (e))}$
		Regulated Hydroelectric ¹	Nuclear ²	Regulated Hydroelectric	Nuclear	OEB Approved Return on Equity Rate for Earnings Sharing
	(a)	(b)	(c)	(d)	(e)	(f)
1	2022	9.33%	8.66%	7,735	8,506	8.98%
2	2023	9.33%	8.66%	7,990	9,551	8.97%
3	2024	9.33%	8.66%	8,124	11,039	8.94%
4	2025	9.33%	8.66%	8,284	12,783	8.92%
5	2026	9.33%	8.66%	8,611	14,654	8.91%

2
3
4
5
6
7

¹ Col. (b) calculated as the average of 2014 and 2015 OEB-approved return on equity for regulated hydroelectric facilities, per EB-2013-0321 Payment Amounts Order, Appendix A, Table 5b, col. (c), line 5 and Table 6b, col. (c), line 5, respectively.
² Col. (c) from EB-2020-0290 Payment Amounts Order, Appendix A, Tables 11-15, cols. (c) lines 5a.
³ 2022-2024 per Table 2a, Note 5, line 4a of revised annual regulatory return filed on March 10, 2026 for these years. Preliminary actual 2025 per Ex. L-11-Staff-266, Attachment 1, Table 2a, Note 5, line 4a. Forecast 2026 per Ex. L-11-Staff-266, Attachment 2, Table 2a, Note 5, line 4a.

Board Staff Interrogatory #262

Interrogatory

Reference:

Ref 1: EB-2024-0136, OEB Letter, Updated Filing Requirements for Ontario Power Generation Inc., September 17, 2024

Ref 2: Exhibit D4 / Tab 1 / Schedule 1 / p. 1

Preamble:

The OEB noted that at the time of issuing its September 17, 2024 letter, OPG is required by regulation to do its financial reporting under US Generally Accepted Accounting Principles (GAAP).

The OEB also stated that while there is no corresponding requirement for the OEB to set OPG's payments based on US GAAP, to do otherwise would be a significant administrative burden.

The OEB said that it will set payments based on US GAAP, but will consider the appropriate approach to capitalizing indirect overheads that would not be permitted to be capitalized under International Financial Reporting Standard (IFRS).

The final Filing Requirements removed the proposed reference to a transition to IFRS and included the requirement for OPG to file a plan for transitioning away from capitalizing indirect overheads or provide a justification for maintaining current practice. Depending on the OEB's determination on the capitalization of indirect overheads, the OEB noted that this issue could persist beyond the next payments application.

In the current application, OPG stated that "overhead costs that are only directly attributable to the acquisition or construction of a capital asset are capitalized."

Question(s):

- a) Please confirm that OPG does not capitalize indirect overheads and no such amounts are included in OPG's requested rate base amounts.
- b) If OPG does capitalize indirect overheads, please quantify and explain.
- c) Please provide a justification for OPG to maintain its current practice of using US GAAP for regulatory purposes, also given that there could be other impacts between US GAAP and IFRS (and not solely indirect overhead differences).

1 Response

2
3 a) Confirmed.

4
5 b) Not applicable.

6
7 c) OPG's use of US GAAP for regulatory purposes in this proceeding is consistent
8 with the OEB's approval for OPG to use US GAAP for regulatory accounting,
9 reporting and rate-making purposes in EB-2012-0002¹ and the OEB's continued
10 acceptance thereof in all subsequent OPG proceedings, and accords to the OEB's
11 current filing requirements. As noted by the OEB (see below), this also avoids a
12 significant administrative burden of using IFRS for regulatory purposes while using
13 US GAAP for financial reporting.
14

15 Specifically, the OEB's current filing requirements state that OPG's "filing should
16 be made in accordance with United States Generally Accepted Accounting
17 Principles". (Filing Requirements for Ontario Power Generation Inc., September 17,
18 2024, p. 6). This reflects the following findings by the OEB in the EB-2024-0136
19 consultation that determined these requirements (OEB Letter, September 17, 2024,
20 pp. 3-4):
21

22 Staff had proposed a new section to the Filing
23 Requirements on the transition to IFRS and the approach
24 to capitalizing overheads. At this time, OPG is required by
25 regulation to do its financial reporting under United States
26 Generally Accepted Accounting Principles (USGAAP).
27 While there is no corresponding requirement for the OEB
28 to set OPG's payments based on USGAAP, to do
29 otherwise would be a significant administrative burden. The
30 OEB will therefore set payments based on USGAAP but
31 will consider the appropriate approach to capitalizing
32 indirect overheads that would not be permitted to be
33 capitalized under International Financial Reporting
34 Standards (IFRS).
35

36 OPG has not otherwise reevaluated the justification for using US GAAP for
37 regulatory purposes.

¹ EB-2012-0002, Tr. Vol 1 Settlement Proposal, p. 25, lines 22-26.

Board Staff Interrogatory #263

Interrogatory

Reference:

Ref 1: Exhibit A2 / Tab 1 / Schedule 1 / pp. 1 & 2

Preamble:

OPG stated that as required by Ontario Regulation 395/11 under *Financial Administration Act* (Ontario) (O. Reg. 395/11), its consolidated financial statements are prepared in accordance with US Generally Accepted Accounting Principles (GAAP).

OPG stated that since January 1, 2012, OPG has sought and received exemptive relief from the Ontario Securities Commission (OSC) and other provincial securities regulators from the requirements of *National Instrument 52-107* (NI 52-107) that allows OPG to file its financial statements using US GAAP instead of International Financial Reporting Standard (IFRS) for continuous disclosure purposes.

OPG stated that the term of the most recent exemption expires on January 1, 2027, subject to certain conditions. In October 2025, OPG filed an application with the OSC requesting the extension of the exemption to the earlier of the effective date of a mandatory IFRS standard for rate-regulated entities (expected to be January 1, 2029) and January 1, 2032.

The application says that the IFRS standard for rate-regulated entities is expected to be finalized in the second quarter of 2026. <https://www.ifrs.org/projects/work-plan/rate-regulated-activities/>

Question(s):

- a) Please provide an update on OPG's October 2025 application with the OSC, including whether OPG has received an exemption to January 1, 2032.
- b) Would the OSC exemption also apply to DNNP LP?
- c) Please elaborate on the expected implications of the mandatory IFRS standard for rate-regulated entities for both OPG and DNNP LP. Is it anticipated that OPG and/or DNNP LP may move from US GAAP to IFRS before the end of the proposed five-year payment amount term?

1 Response
2

3 a) In December 2025, the Ontario Securities Commission (“OSC”) issued its final
4 decision in connection with OPG’s October 2025 application for an exemption from
5 the requirements of section 3.2 of National Instrument 52-107, Acceptable
6 Accounting Principles and Auditing Standards, enabling OPG to continue to file its
7 financial statements using US GAAP instead of International Financial Reporting
8 Standard (IFRS) for continuous disclosure purposes.
9

10 The exemption granted will terminate on the earliest of the following:

- 11
12 (i) January 1, 2032;
13 (ii) if OPG ceases to have rate-regulated activities, the first day of OPG’s
14 financial year that commences after OPG ceases to have rate-regulated
15 activities; and
16 (iii) the first day of OPG’s financial year that commences on or following the later
17 of:
18 1. the effective date prescribed by the International Accounting Standards
19 Board (IASB) for the mandatory rate-regulated standard; and
20 2. four years after the IASB publishes the final version of a mandatory rate-
21 regulated standard.
22

23 The above update is as set out in OPG’s 2025 Audited Consolidated Financial
24 Statements and Management Discussion and Analysis at Ex. L-A2-Staff-010,
25 Attachment 1, p. 58.
26

27 If the IASB publishes the final mandatory rate-regulated standard in 2026 as
28 expected, the above terms would result in the exemption terminating effective
29 January 1, 2031.
30

31 b) As DNNP LP is not a reporting issuer registered with the OSC, it is not subject to
32 the regulatory requirements established by the OSC. However, as an entity
33 consolidated in OPG’s consolidated financial statements, DNNP LP’s financial
34 reporting is expected to be in accordance with the same accounting standards as
35 applied by OPG. For clarity, US GAAP is the current financial reporting framework
36 for DNNP LP.
37

38 c) As OPG’s evidence at Ex. A2-1-1, p. 2, lines 11-17 states,
39

40 OPG is not currently planning for adoption of IFRS for
41 continuous disclosure purposes. As further discussed in
42 Ex. C1-1-2, OPG is planning to register with the U.S.
43 Securities and Exchange Commission (“SEC”) as a

1 Foreign Private Issuer to facilitate access to U.S. debt
2 capital markets. As an SEC registered issuer, OPG would
3 retain the ability to meet its continuous disclosure
4 requirements in Canada by continuing to file its financial
5 statements using US GAAP as permitted under the
6 ongoing exemptions in NI 52-107 available for SEC
7 registered issuers.

8
9 As discussed in Ex. L-C1-Staff-034, there has been no change in OPG's
10 expectations in the above respect and, as such, notwithstanding the expected
11 publication of the IFRS rate-regulated standard, the Applicants do not presently
12 anticipate that either OPG or DNNP LP will transition from US GAAP to IFRS for
13 continuous disclosure purposes before the end of the 2027-2031 IR term.

14
15 For clarity, as discussed in Ex. A2-1-1, Section 2.0, OPG is required to prepare its
16 consolidated financial statements in accordance with US GAAP by Ontario
17 Regulation 395/11 ("O. Reg. 395/11") under the *Financial Administration Act*
18 (Ontario). While these requirements take precedence over the *Securities Act*
19 (Ontario) (and other Ontario legislation), they do not take precedence over the
20 equivalent continuous disclosure requirements of other provincial securities
21 regulators. The requirements of these other securities regulators apply to OPG as
22 it is a reporting issuer in those jurisdictions by virtue of its Medium-Term Notes
23 issued pursuant to a short form base shelf prospectus filed in these jurisdictions
24 and subject to the requirements of *National Instrument 44-101 – Short Form*
25 *Prospectus Distributions*. Accordingly, should OPG ultimately be required to file its
26 consolidated financial statements using IFRS to meet the continuous disclosure
27 requirements of the other provincial securities regulators, it would continue to be
28 legally required to prepare consolidated financial statements in accordance with US
29 GAAP in Ontario.

30
31 Given that the process for OPG to achieve SEC registration will not be concluded
32 in the course of this proceeding and is expected to continue into the IR term, at Ex.
33 H1-1-1, Sections 5.27 and 8.5, the Applicants have proposed to continue the
34 Impacts for IFRS Deferral Account (OPG) for OPG and to establish an equivalent
35 Impacts for IFRS Deferral Account (DNNP) for DNNP LP, and to reassess the
36 matter in the next payment amounts proceeding when the SEC registration process
37 is expected to have been concluded (taking into account as applicable the
38 implications of the O. Reg. 395/11 requirements at the time).