CCC Interrogatory #019

Interrogatory

Reference:
Exhibit B1, Tab 1, Schedule 1, p. 14
Exhibit A1, Tab 4, Schedule 1, Attachment 4, p. 49

Question(s):

a) Please further discuss the statement that the market value of materials and supplies takes into account technological obsolescence and remaining useful life. To the extent that certain materials that were purchased and not used, please explain how those costs are treated from a ratemaking perspective.

b) Please explain whether the MRNI reduction initiative (discussed as part of the 23-08 Nuclear Work Orders Materials Management audit) is related to minimizing unutilized materials and supplies. If not, please explain the noted MRNI initiative.

c) For the historical period, please provide the dollar value of materials/supplies that were purchased and evaluated as not consumed by year.

Response

a) The statement in Ex. B1-1-1, p.14, lines 19-23 is related to the measurement of the value of Materials & Supplies subsequent to initial recognition in accordance with US GAAP and OPG accounting governance. As OPG is required to hold both lifetime and critical spares at all times in support of nuclear operations safety and continuous operations, some spares may become obsolete due to externalities such as changes in the operating systems or reaching shelf-life expiration.

Where materials have been purchased but not immediately used, these materials are not expensed and are instead placed into inventory for future use. Materials & Supplies, net of provision for accumulated obsolescence, is identified in OPG's rate base (refer to Exhibit B1-1-1, Table 2). As discussed in Ex. B1-1-1, Section 3.2.4, such a provision is built up over the life of the respective nuclear station, and the cost of inventory identified as obsolete is offset against this provision. The build up of the provision is recognized as a nuclear Base OM&A expense that is included in the revenue requirement (Ex. F2-2-1, p. 6, lines 6-7).

In the course of preparing this response, OPG identified a data input error resulting in incorrect 2025-2031 values being reflected in the pre-filed evidence for materials

and supplies for OPG nuclear facilities, at Ex. B3-5-1, Tables 1 and 2. The corrected year-end values for 2025-2031 are $511.5M, $531.0M, $535.4M, $534.7M, $537.9M, $551.5M and $547.7M, respectively, and the resulting corrected materials and supplies rate base values for 2025-2031 at Ex. B1-1-1, Table 2 are $503.4M, $521.2M, $533.2M, $535.0M, $536.3M, $544.7M and $549.6M, respectively. The Applicants propose to reflect this correction in the revenue requirements during the drafting of the payments amounts order in this proceeding. The correction will reduce the revenue requirements.

b) The MRNI reduction initiative focuses on minimizing materials and supplies requested but not immediately used as part of OPG's broader effort to continuously optimize materials management while maintaining nuclear station reliability. This initiative enhances visibility into material demand, usage, and inventory levels, with the objective of reducing excess or long-dormant inventory where practicable.
In support of nuclear operations safety and continuous operations, OPG is required to hold both lifetime and critical spares at all times. These critical spares allow OPG to:

- Respond to unexpected equipment issues during online and outage work
- Manage the uncertainty inherent in nuclear maintenance and equipment refurbishment and overhaul activities
- Address vendor lead times and specialized nuclear-grade material availability
- Maintain plant reliability, safety, and continuity of operations.

As a result, inventory levels reflect a risk-informed approach to managing the availability of supply.

In addition to the actions undertaken following the referenced audit, the MRNI reduction initiative focuses on distinguishing between materials that are appropriately held or ordered to manage operational risk and ensure availability or where inspections during maintenance confirmed that the existing parts remained serviceable. In 2025, OPG started to utilize an AI tool that examines historical data on part usage to inform work management assessors when ordering parts. This initiative is expected to improve overall MRNI metrics over time.

c) Chart 1 shows an overall estimate of the dollar value of materials/supplies that were purchased and evaluated as not consumed, by year, over the historical period of 2020- 2024 for OPG's nuclear stations.

The amounts presented include procurement for operations, outages, and projects.

Chart 1 – OPG Nuclear Stations Materials Purchased but Not Consumed ($M)

$M	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual
Materials Purchased[1,2]	212.2	274.9	203.7	271.2	323.8
Materials Purchased for Demand (a)[1,2,3]	154.3	224.7	170.3	218.8	273.5
Materials Consumed/Issued (b)[1]	182.4	212.0	230.5	220.9	275.6
Materials Purchased for Demand but Not Consumed (c = a – b)	(28.1)	12.7	(60.2)	(2.0)	(2.1)

1. Materials Purchased is valued based on the actual purchase price of the materials received in the stated year. The stated values are inherently larger than the values of the same materials when consumed (b) due to the weighted-average inventory cost of accounting treatment.
2. Materials Purchased can be for consumption, replenishment of spare parts or for future planned consumption.
3. Materials Purchased for Demand (a) reflects purchases linked to specific demand and excludes purchases associated with replenishment of spare parts