CENTRALLY-HELD COSTS

1.0 PURPOSE

This evidence presents OPG's centrally-held costs and the period-over-period comparisons of centrally-held costs that are directly assigned and allocated to OPG's nuclear facilities.

2.0 OVERVIEW

This evidence supports the approval sought for the centrally-held costs included in the 2017 to 2021 nuclear revenue requirements proposed in this Application. The amounts included in the nuclear revenue requirements are $74.9M in 2017, $112.9M in 2018, $102.9M in 2019, $85.7M in 2020 and $75.7M in 2021.

Centrally-held costs are an integral part of the costs of operating OPG's generation facilities. They are company-wide costs that are recorded centrally for a variety of reasons, such as achieving record-keeping efficiency and maintaining proper oversight. They are not Support Services costs.

Categories of centrally-held costs are separately identified for those exceeding $10M per year on average over the test period. The category of "Other" reflects the remaining centrally-held costs, with a description of some of the more significant items provided in section 7.0. The centrally-held cost items described below were identified in EB-2013-0321 and EB-2010-0008 and the nature of these costs is unchanged.

Centrally-held costs continue to be directly assigned or allocated to OPG's regulated operations using the same methodology as in EB-2013-0321 and EB-2010-0008. The methodology was previously reviewed and found to be appropriate by Black & Veatch Corporation in EB-2010-0008. The methodology was similarly found to be appropriate as part of the independent review of OPG's cost allocation methodology by HSG Group Inc. in EB-2013-0321. The methodology is applied to total OPG-wide centrally-held costs presented in Ex. F4-4-1 Table 1, which results in costs attributed to the nuclear facilities presented in Ex. F4-4-1 Table 3. Ex. F4-4-2 Table 2 provides the period-over-period comparisons for the historical, bridge and test periods for the nuclear facilities and a comparison to the budgeted or OEB-approved amounts.

This evidence provides a description of the categories of centrally-held costs and discusses trends and variances for each category. The key drivers of these costs are identified within the discussions of trends and variances. Where these drivers do not adequately explain a year-over-year variance, a specific explanation is provided to the extent the variance is equal to or greater than 10 per cent.

Centrally-held costs increase from 2013 to 2015 primarily as a result of higher pension and OPEB-related accrual costs. The costs are forecast to decrease markedly during 2016-2021 as pension and OPEB-related amounts decline significantly. OPG's Application includes a proposed pension and OPEB adjustment to centrally-held costs for the nuclear facilities such that the 2017-2021 nuclear revenue requirements reflect forecast cash amounts for pension and OPEB pending the outcome of the EB-2015-0040 generic consultation. This negative adjustment is applied to test period centrally-held costs for the nuclear facilities (line 2 in Ex. F4-4-1 Table 3). The negative adjustment declines from $145.4M in 2017 to $49.8M in 2021 as the forecast differential between accrual costs and cash amounts declines significantly. OPG's proposed test period treatment of pension and OPEB costs and the difference between accrual costs and cash amounts are discussed in Ex. F4-3-2.

3.0 PENSION AND OPEB-RELATED ACCRUAL COSTS

3.1 Description

Certain components of pension and OPEB accrual costs for all of OPG's employees and retirees continue to be included in centrally-held costs. These cost components include interest costs on the obligations, the expected return on pension plan assets, amounts in respect of past service costs, amounts in respect of actuarial gains and losses, and variances from the estimated current service cost amounts charged to business units through standard labour rates and related charges. As in EB-2013-0321 and EB-2010-0008, the pension and OPEB-related accrual costs are directly assigned and allocated to business units in proportion to the pension and OPEB costs charged to the business units including amounts assigned and allocated as part of corporate Support Services costs.

3.2 Trends and Variances

Specific trends and variances in pension and OPEB accrual costs are discussed in section 5.3 of Ex. F4-3-2. In summary, variability in the pension and OPEB accrual costs in the historical period is primarily related to the December 31, 2013 comprehensive accounting valuation of pension and OPEB obligations[1], fluctuations in discount rates, and differences in pension fund asset values. Over the 2016-2021 period, the declining trend in these costs is mainly due to negative expected net growth in cost components from projected increases in pension asset values and lower amortization of historical net actuarial losses.[2]

4.0 OPG-WIDE AND NUCLEAR INSURANCE

4.1 Description

These are the costs of OPG's company-wide insurance program and the additional nuclear-specific insurance program. The company-wide program covers commercial general liability, directors and officers and fiduciary liability, all risk property, boiler and machinery breakdown, including statutory boiler and pressure vessel inspections, and business interruption.

As in EB-2013-0321 and EB-2010-0008, the costs of the company-wide insurance program are primarily directly assigned to the business units based on the applicability of each type of insurance coverage and the asset replacement cost of the generation facilities. The nuclear-specific insurance program relates to liability insurance associated with nuclear operations and additional property insurance for damage to the nuclear portions of OPG's nuclear generating stations, which complements the conventional property insurance program. This portion of insurance costs continues to be directly assigned to the nuclear facilities.

---

[1] See EB-2013-0321: Ex. N1-1-1, Ex. N2-1-1 and Ex. L-6.8-1 Staff-112

[2] Expected net growth (i.e., change) in pension cost components includes the impact of changes in current service costs in the normal course, higher interest costs on a higher benefit obligation due to the passage of time, expected changes in the pension asset value, and related changes in amortization of historical actuarial gains and losses.

4.2 Trends and Variances

OPG-wide insurance costs for the nuclear facilities are generally stable over the test period, with period-over-period fluctuations and budget-to-actual variances in historical and bridge periods attributable mainly to actual and assumed insurance premium increases and changes related to appraised asset replacement cost values.

The main trend in the planned increases in nuclear insurance costs over the bridge and test periods are increased premiums starting in 2016, due to higher statutory nuclear liability insurance limits that will be phased in over four years in accordance with the provisions of the new federal legislation. As noted in Ex. A1-6-1, the higher limits will result once the *Nuclear Liability and Compensation Act*, which received Royal Assent in February 2015, is in force and replaces the 1976 *Nuclear Liability Act*.

5.0 PERFORMANCE INCENTIVES

5.1 Description

These costs are for the pay-at-risk program that compensates OPG's Management (i.e. non-unionized) employees based on the achievement of corporate and individual performance objectives. The costs continue to be attributed to the business units based on the distribution of past performance incentive payments.

5.2 Trends and Variances

Performance incentive costs are projected assuming target performance is achieved and are generally stable over the 2016-2021 period. The costs fluctuate in the historical period, reflecting variations in actual corporate performance. The 2014 costs were close to the OEB-approved amount as the impact of exceeding target corporate performance was largely offset by lower staff levels. The 2015 costs were below the OEB-approved amount chiefly due to lower staff levels. OPG's Management compensation, including the pay-at-risk program, is discussed in Ex. F4-3-1.

6.0 IESO NON-ENERGY CHARGES

6.1 Description

IESO non-energy costs are charges that are applied to withdrawals of energy from the IESO-controlled grid. The charges include transmission charges, the debt retirement charge, the rural or remote electricity rate protection charge, charges associated with IESO administration fees uplift charges and the Global Adjustment. These charges are not discretionary and apply to all energy withdrawals from the IESO-controlled grid. These charges are directly assigned to the specific regulated facilities.

6.2 Trends and Variances

The fluctuations in the costs for the nuclear facilities over the 2013 to 2021 period are primarily due to the variability in Global Adjustment rates. Differences in Global Adjustment rates also represent the principle cause of the variances between actual and OEB-approved amounts for the nuclear facilities for 2014 and 2015.

7.0 OTHER

7.1 Description

As in EB-2013-0321, other centrally-held costs ("Other costs") consist of a number of relatively smaller items. In the test period, these are comprised primarily of labour-related costs and the annual Ontario Nuclear Funds Agreement ("ONFA") guarantee fee. The labour-related costs include the fiscal calendar and labour balancing adjustments, as well as the vacation accrual.

The fiscal calendar adjustment is a wage adjustment covering all business units that reflects the difference in the number of days between the 52 or 53 week fiscal calendar used for payroll accounting and OPG's financial year ending on December 31. The adjustment is temporary and fluctuates from year to year, as the starting and ending days of the fiscal calendar vary from year to year. A negative adjustment (i.e., a reduction to costs) can occur in years when the fiscal calendar has 53 weeks. The costs (or a reduction to costs) are directly assigned to business units on the basis of each unit's payroll.

The labour balancing adjustments relate to non-pension and OPEB components of the standard labour rates. These adjustments capture variances (positive or negative) between the amount of such costs charged or planned to be charged to the business units and Support Services groups through standard labour rates and the final actual or planned amount of these costs.

The vacation accrual represents the cost to OPG of the estimated outstanding vacation entitlement for all of its employees and is directly assigned to business units on the basis of each unit's payroll.

The annual ONFA guarantee fee is the amount payable by OPG to the Province of Ontario pursuant to the ONFA. In exchange for the fee, the Province of Ontario supports financial guarantees to the Canadian Nuclear Safety Commission by providing a guarantee relating to OPG's nuclear decommissioning and waste management liabilities and nuclear segregated funds pursuant to the ONFA. The fee is calculated as 0.5 per cent of the amount currently guaranteed of $1,551M, and is directly assigned to the nuclear facilities. OPG's nuclear decommissioning and waste management liabilities are discussed in Ex. C2-1-1.

7.2 Trends and Variances

Variances in Other costs over the 2013 - 2015 period are mainly caused by the variability in labour balancing and fiscal calendar adjustments.

The variability in the labour balancing adjustments primarily accounts for the decreasing trend in the actual Other costs for the nuclear facilities over the 2013-2015 period and the lower Other costs in 2015 relative to the 2016 projection. Actual amounts of the labour balancing adjustments are a function of each year's payroll related transactions processed by OPG on account of thousands of individual employees.

The negative fiscal calendar adjustment in 2017 is the main driver of the lower forecast Other costs for the nuclear facilities, compared to 2016. The negative fiscal calendar adjustment anticipated in 2017 is due to OPG's 2017 fiscal year being four days longer than the 2017 calendar year (the other fiscal years in the 2013-2021 period are shorter than the respective calendar years). Differences in the forecast Other costs over the 2019-2021 period are also chiefly due to the variability in the number of days covered by the fiscal calendar adjustment.

The forecast Other costs for the nuclear facilities are higher in 2018 than in 2017 and 2019. This is mainly due to labour balancing adjustments related to differences between amounts included in planning standard labour rates for payments to a subset of employees for a limited time period negotiated as part of the 2015 round of collective bargaining in exchange for pension reforms, and the final planned amounts of these costs. The 2015 collective bargaining and related outcomes are discussed in Ex. F4-3-1.

Numbers may not add due to rounding.

Table 1
Centrally Held Costs ($M)
OPG

Line No.	Corporate Costs	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	**Pension/OPEB Related Accrual Costs**	374.6	382.6	433.4	249.4	132.1	81.4	52.7	32.5	20.7
2	**OPG-Wide Insurance**	16.3	16.6	21.0	23.4	24.0	25.3	27.4	27.7	27.4
3	**Nuclear Insurance**	7.6	8.0	8.2	19.0	21.1	23.1	26.0	26.5	27.1
4	**Performance Incentives**	20.4	27.0	23.6	24.2	24.2	24.4	24.5	24.3	24.3
5	**IESO Non-Energy Charges**	92.6	77.0	108.0	94.4	93.7	85.1	78.7	82.6	62.1
6	**Other**	41.1	32.6	8.7	29.7	11.5	33.7	23.1	26.1	21.0
7	**Total**	552.6	543.8	602.9	440.1	306.7	273.0	232.5	219.7	182.6

Table 2

Allocation of Centrally Held Costs - Regulated Hydroelectric ($M)

Intentionally left blank (See Ex. A1-3-1)

Numbers may not add due to rounding.

Table 3
Allocation of Centrally Held Costs - Nuclear ($M)

Line No.	Costs	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	**Pension/OPEB Related Accrual Costs**	289.0	298.5	343.0	200.1	106.6	65.9	42.9	26.5	16.8
2	**Pension/OPEB Adjustment for Test Period Cash to Accrual Differences**[1]	0.0	0.0	0.0	0.0	(145.4)	(82.1)	(59.5)	(65.7)	(49.8)
3	**OPG-Wide Insurance**	3.3	3.4	4.6	6.2	6.4	6.5	7.0	7.0	6.8
4	**Nuclear Insurance**	7.6	8.0	8.2	19.1	21.1	23.1	26.1	26.5	27.1
5	**Performance Incentives**	14.5	20.2	17.1	18.4	18.4	18.5	18.6	18.5	18.5
6	**IESO Non-Energy Charges**	57.4	51.2	77.7	62.1	61.1	56.5	51.8	54.5	42.0
7	**Other**	38.1	29.7	9.4	21.0	6.7	24.5	16.0	18.3	14.3
8	**Total**	409.9	411.0	459.9	326.9	74.9	112.9	102.9	85.7	75.7

Notes:

1 As discussed in Ex. F4-4-1 and Ex. F4-3-2, the test period adjustment is included to reflect OPG's proposal to include cash amounts for pension and OPEB in the nuclear revenue requirement and defer the difference between accrual costs and cash amounts in the Pension & OPEB Cash to Accrual Differential Deferral Account pending the outcome of the EB-2015-0040 generic consultation, consistent with the EB-2013-0321 treatment.
The difference between accrual costs and cash amounts is found in Ex. F4-3-2 Chart 3.