

**Ontario Energy
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BY E-MAIL

June 18, 2015

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
Board File No. EB-2014-0370**

Please find attached OEB staff's submission with respect to the settlement proposal for Ontario Power Generation Inc.'s application for an order or orders relating to deferral and variance accounts.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

**ONTARIO POWER GENERATION INC.
DEFERRAL AND VARIANCE ACCOUNTS**

EB-2014-0370

**Ontario Energy Board
Staff Submission – Settlement Proposal**

June 18, 2015

Introduction

On June 16, 2015, Ontario Power Generation Inc. (OPG) filed a settlement proposal with respect to its application for an order or orders related to deferral and variance accounts, including disposition of account balances as at December 31, 2014.

The settlement proposal represents a partial settlement and is proposed by OPG and the intervenors who participated in the settlement discussions (collectively the parties). There is a single unsettled matter in the proceeding, although it applies to the balances in several deferral and variance accounts. The parties request that the Ontario Energy Board (OEB) determine whether the amounts recorded in certain accounts for the period January 1, 2014 to October 31, 2014 for the regulated hydroelectric business and the nuclear business are appropriate.

The parties propose that the matter should be the subject of a written hearing.

The OEB's *Practice Direction on Settlement Conferences* requires OEB staff to file a submission commenting on "whether the settlement proposal represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale is adequate to support the settlement proposal." This submission reflects observations which arise from OEB staff's review of the evidence and the settlement proposal, and is intended to assist the OEB in deciding upon OPG's application with respect to the issues laid out in the settlement proposal and in setting just and reasonable payment amounts.

Submission on Partial Settlement Proposal

Customer Impacts

OPG determined that the impact of its application was an 11.2% increase in payment amounts and a \$3.00 increase in the monthly bill of a typical residential customer.

Assuming implementation of the partial settlement, and disposition of January to October 2014 balances in certain accounts as proposed by OPG, OPG has determined that the impact would be a payment amount increase of 7.2% and a \$1.93 increase in the monthly bill of a typical residential customer.

OEB staff submits that the OEB's approval of the partial settlement proposal as filed represents an acceptable outcome from a public interest perspective.

The unsettled matter relates to whether amounts recorded from January to October 2014 in certain accounts are appropriate given the OEB's decision to make 2014-2015 payment amounts effective November 1, 2014. Following the hearing of this unsettled matter, should the OEB accept the argument of many of the intervenors regarding the reference used for recording appropriate amounts in certain accounts for this period, OPG has determined that the impact would be a payment amount increase of 4.2% representing a \$1.13 increase in the monthly bill of a typical residential customer.

The OEB staff submission below provides further information regarding payment amount impacts to provide some background and context for the OEB's consideration.

The 2014-2015 payment amounts Decision with Reasons (EB-2013-0321) stated at page 124 that, "The Board does not endorse OPG's decision to bifurcate its cost of service issues into two separate proceedings, deferring its application for disposition of deferral and variance accounts to a later date." The decision stated at page 125:

As a result of OPG deferring its application for disposition of deferral and variance accounts, the Board is unable to render a decision on the need for rate mitigation in 2014 and 2015, based on the overall bill impact resulting from OPG's operations. This creates a difficult situation for ratepayers who will not understand the full impact on payment amounts for 2014 and 2015 until the second application is completed. Based on the evidence filed, the account balances to be cleared in a second application will be significant.

With respect to mitigation, the decision also stated at page 130:

No mitigation of payment amount increases is approved in this Decision. It should be noted that the total bill impact to ratepayers over the test period will be dependent upon another application and proceeding related to disposition of OPG's deferral and variance account balances as at December 31, 2014, and which will likely seek rate riders starting in 2015 to account for the clearance of these deferral and variance accounts. The need for mitigation should be an issue in this subsequent proceeding, in the context of OPG's total bill impact.

In the current proceeding, an OEB staff interrogatory sought bill impacts for some deferral and variance account disposition scenarios. The 2014-2015 payment amounts proceeding bill impacts and OPG’s response to the scenario interrogatory are summarized in the following table for the OEB’s reference.

Monthly Bill Impact for Typical Residential Customer

| | | \$/Month |
|----------------------------|---|----------|
| 1 | As filed in EB-2013-0321: 2014-2015 payment amounts, including clearance of 2013 year end balances for four accounts: Application as filed (Exh N2-1-1) | \$5.31 |
| 2 | As approved in EB-2013-0321 Payment Amounts Order (clearance of 2013 year end balances for four accounts), Appendix A Table 9 | \$2.53 |
| Scenario Analysis (Note 1) | | |
| 3 | As filed (EB-2013-0321), including clearance of 2013 year end balances for the four accounts, plus all remaining deferral and variance accounts | \$7.01 |
| 4 | As approved EB-2013-0321 Payment Amounts Order, including clearance of 2013 year end balances for the four accounts plus all remaining deferral and variance accounts | \$4.22 |
| 5 | As approved EB-2013-0321 Payment Amounts Order, including clearance of 2014 year end balances for all deferral and variance accounts as filed in EB-2014-0370 | \$5.53 |

Note 1: Source for rows 3,4,5 - EB-2014-0370, Response to OEB staff interrogatory #16, April 8, 2015. Assumptions, e.g. disposition periods, are noted in the response.

OEB staff estimates that the EB-2013-0321 Payment Amounts Order, including the effect of the partial settlement would result in a monthly bill impact of \$4.46. Subject to the OEB’s determination on the unsettled matter, the impact of this scenario could be lower.

The customer bill impacts and payment amount increases referred to in this submission are based on OPG’s calculation methodology. This is effectively a comparison of December 31, 2014 with the weighted average of proposed rates and riders for the 24 month period January 1, 2015 to December 31, 2016. As most of the accounts will be

cleared over the 18 month period July 1, 2015 to December 31, 2016, some of the intervenors have proposed an alternate bill impact and payment amount increase methodology. It effectively compares June 30, 2015 with the weighted average of the proposed rates and riders for the 18 month period July 1, 2015 to December 31, 2016.

OEB staff has only referred to OPG's methodology in this submission as there is more scenario data for this methodology.

Rationale to Support Settlement Proposal

OEB staff submits that the parties have provided sufficient rationale to support the partial settlement proposal. The submission below provides further information regarding the Pension and OPEB Cost Variance Account to provide some background and context for the OEB's consideration.

The Pension and OPEB Cost Variance Account was established in motion proceeding EB-2011-0090. The purpose of the account is to record the difference between the accrual pension and OPEB costs and related payments in lieu of taxes (PILs) reflected in payment amounts and the actual accrual pension and OPEB costs and related PILs. The OEB's 2014-2015 payment amounts decision, EB-2013-0321, closed the account to new additions after October 31, 2014.

OPG applied to clear the 2012 year end balances in the Pension and OPEB Cost Variance Account in the deferral and variance account proceeding, EB-2012-0002. The OEB accepted a settlement proposal that set two different disposition periods:

- For 2/12ths of the 2012 year-end balance, the recovery period was two years, i.e. 2013 and 2014. The EB-2014-0370 evidence refers to this portion of the account as "Pension and OPEB Cost Variance – Historic".
- For 10/12ths of the 2012 year-end balance, the recovery period was 12 years. The EB-2014-0370 evidence refers to this portion of the account as "Pension and OPEB Cost Variance – Future". With respect to the 12 year recovery period, the EB-2012-0002 settlement proposal stated, "With the exception of the Historic Recovery ..., the clearance of the account balance will be done over a period equivalent to the current expected average remaining service lives of OPG's employees ("EARSL"), which is 12 years."

The EB-2012-0002 proceeding established payment amount riders for two years of the 12 year amortization period, i.e. 2013 and 2014. The parties have agreed that the payment amount riders approved in the current proceeding will continue the disposition of the “Pension and OPEB Cost Variance – Future” balances as set out in EB-2012-0002.

The additions to the account after December 31, 2012 are separately referred to in the EB-2014-0370 evidence as the “Pension and OPEB Cost Variance – Post 2012 Additions”. OPG applied to clear the post 2012 balance over two years. The parties settled on six years as it balances OPG’s desire to optimize its cash flow with a concern over customer impacts.

OEB staff notes that the use of the full EARSL of 12 years would not yield materially lower impacts. OEB staff has estimated that the amortization of the “Pension and OPEB Cost Variance – Post 2012 Additions” balance over 12 years rather than 6 years would lower the monthly bill impact from \$1.93 to \$1.66.

As noted above, OEB staff submits that the parties have adequately justified the settlement on this matter.

Hearing of the Unsettled Matter

As noted previously, there is a single unsettled matter in the proceeding. The parties request that the OEB determine whether the amounts recorded for the period January 1, 2014 to October 31, 2014 in all accounts except the Pension and OEPB Cost Variance Account are appropriate.

As noted in the settlement proposal, “The parties agree that a written hearing is the appropriate way for the OEB to determine the unsettled matter because the parties consider the dispute to be narrow and primarily legal in nature. The parties consider the record to be complete with no further discovery required.”

OEB staff does not require further discovery on this issue. There is a “Statement of Entries into the Variance Accounts Which are Disputed” in Attachment 1 to the partial

settlement proposal. OEB staff takes no position on whether argument should be written or oral on this matter.

All of which is respectfully submitted