

**Ontario Energy  
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**BY EMAIL**

December 21, 2018

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

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.  
Application for 2019 Hydroelectric Payment Amount Adjustment and  
Clearance of Deferral and Variance Account Balances  
OEB File Number EB-2018-0243**

In accordance with Procedural Order No. 3, please find attached OEB staff's submission with respect to the draft issues list for the above noted proceeding. This document is being forwarded to Ontario Power Generation Inc. and to all registered parties to this proceeding.

Yours truly,

*Original signed by*

Georgette Vlahos  
Advisor, Incentive Rate-setting & Accounting

Attachment

**ONTARIO POWER GENERATION INC.  
APPLICATION FOR 2019 HYDROELECTRIC  
PAYMENT AMOUNT ADJUSTMENT AND  
CLEARANCE OF DEFERRAL AND VARIANCE  
ACCOUNT BALANCES**

**EB-2018-0243**

**Ontario Energy Board  
Staff Reply Submission**

**Issues List**

**December 21, 2018**

## Introduction

Ontario Power Generation Inc. (OPG) filed an application with the Ontario Energy Board (OEB) on August 9, 2018 under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) seeking approval for an order or orders related to deferral and variance accounts, including disposition of account balances related to its nuclear generating facilities and most of its hydroelectric generating facilities as at December 31, 2017. OPG also applied to increase the amount it charges for the output of most of its hydroelectric generating facilities effective January 1, 2019 using an OEB-approved formula that is tied to inflation and other factors intended to promote efficiency.

As directed in Procedural Order No. 1, OPG, OEB staff and the intervenors used OPG's draft issues list as filed in its initial application<sup>1</sup> as a starting point to develop a proposed issues list. The parties did not reach agreement on the proposed issues list. OEB staff filed a letter advising the OEB of this outcome on December 12, 2018. The OEB issued Procedural Order No. 3 on December 13, 2018, which made provision for written submissions on the draft issues list.

## Issues List

OEB staff has reviewed the draft issues list and the submissions of the Association of Major Power Consumers in Ontario (AMPCO), Consumers Council of Canada (CCC), Energy Probe Research Foundation (Energy Probe), Canadian Manufacturers & Exporters (CME), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalitions (VECC). None of the intervenors proposed changes to the issues set out in the issues list at Schedule A to Procedural Order No. 3.

CCC referred to a response at the technical conference in which OPG stated that it does not intend to file an application for deferral and variance account balance recovery prior to its next rate application.<sup>2</sup> CCC submitted that there could be significant balances for recovery in 2022, with the potential for rate shock and intergenerational inequity. CCC proposed that the following issue should be added to the issues list:

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<sup>1</sup> EB-2018-0243 Exhibit A1, Tab 2, Schedule 3.

<sup>2</sup> Technical Conference Transcript, page 22.

Is OPG's proposal to defer consideration of all future balances in its deferral and variance accounts, including the balances in 2018 accounts and some 2017 accounts, until its next rebasing in 2022 appropriate?

CCC's submission was supported by CME and Energy Probe.

AMPCO also submitted that that substantial balances are likely to accrue before OPG's next payment amounts application. AMPCO proposed that the following issue be added to the issues list:

What is the appropriate schedule for clearance of each of the Applicant's deferral and variance accounts going forward?

SEC disagreed with OPG's response regarding its intention to file the next application for deferral and variance account disposition with its next rate application. SEC submitted that the timing is not within OPG's discretion, but is in the hands of the OEB. VECC supported the submissions of CCC and SEC.

OEB staff notes the 2017-2021 payment amounts decision stated that:

OPG may file to dispose of applicable audited deferral and variance account balances at the same time as its application for 2019 hydroelectric payment amounts in calendar year 2018. OPG may include its proposal for review of the Pension & OPEB Cash Versus Accrual Differential Deferral Account.<sup>3</sup>

The 2017-2021 payment amounts decision did not set out any further disposition of deferral and variance account balances during that test period.

OEB staff also notes that the 2014-2015 payment amounts decision stated:

It is not a common practice of any other entity regulated by the Board to apply for a separate proceeding to dispose of deferral and variance accounts, other than when the entity is under a long-term incentive

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<sup>3</sup> EB-2016-0152, Decision and Order, Section 7.4 – Future Deferral and Variance Account Disposition, page 119, December 28, 2017.

regulation method for rate-setting. This is not the case for OPG at this time.<sup>4</sup>

The 2014-2015 payment amounts decision further stated:

...it is the Board's expectation that going forward, all accounts should be reviewed and disposed of in a cost of service proceeding unless there is a compelling reason to not do so. The Board agrees with Board staff that the optimal time to review all accounts is at the time of a cost of service review, based on the most recently audited account balances rather than forecasts. Any mitigation measures that may be required can also be considered at that time. This approach is consistent with the treatment of deferral and variance accounts for electricity distributors.<sup>5</sup>

OEB staff submits that OPG's response at the November 29, 2018 technical conference is consistent with the 2017-2021 and 2014-2015 payment amounts decisions. Furthermore, OEB staff notes that electricity distributors do not file for Group 2 account balances during an incentive rate-setting period. The bulk of OPG's deferral and variance accounts require a prudence review and therefore are akin to Group 2 accounts for distributors.

AMPCO and CCC expressed concern in their submissions about the magnitude of the balances that would be considered at the next payment amounts proceeding, and the potential for rate shock. OEB staff notes that previous OPG applications that seek disposition of deferral and variance account balances have reflected account additions over at least two years.

In this proceeding, OPG has filed to dispose of 2017 year end balances in most deferral and variance accounts, less previously approved amortization. At the technical conference, OPG stated that they are contemplating dates for their next filing, but have not arrived at a fixed date yet.<sup>6</sup> Assuming the test period for the next payment amounts application is 2022-2026, and assuming a filing similar to the 2017-2021 filing, OPG would file early in 2021 and seek clearance of audited 2020 balances, reflecting three years of account entries since 2017. If OPG were to file the 2022-2026 application in

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<sup>4</sup> EB-2013-0231, Decision with Reasons, Section 8.3 – Future Disposition of Accounts, pages 124-125, November 20, 2014.

<sup>5</sup> EB-2013-0231, Decision with Reasons, Section 8.3 – Future Disposition of Accounts, page 125, November 20, 2014.

<sup>6</sup> Technical Conference Transcript, page 23.

2020, OPG would seek clearance of audited 2019 balances, reflecting two years of account entries since 2017. OEB staff submits that these scenarios would not be atypical with respect to previous clearance of OPG deferral and variance accounts.

In the 2011-2012 payment amounts decision,<sup>7</sup> the OEB set out reports that OPG would file beginning in 2011, including unaudited balances of deferral and variance accounts within 60 days after calendar quarter end. OEB staff submits that, on the basis of these filings, the OEB could direct OPG to file an application to dispose of deferral and variance account balances before the next cost based payment amounts proceeding if the OEB determined that the magnitude of the balances was a concern. OEB staff submits that this direction would be consistent with the submission filed by SEC.

OEB staff submits that OPG has complied with the OEB's direction on deferral and variance account disposition. However, given that the OEB did not specifically address whether changes to the timing of disposition should be made once OPG was approved to transition to an incentive rate-setting term, there may be merit in the OEB considering this issue, including whether the experience of natural gas distributors, who dispose annually and are now in an incentive rate-setting framework, merits consideration. If the OEB finds that the matter of the next deferral and variance account balance disposition merits consideration in this proceeding, OEB staff submits that AMPCO's proposed issue is more appropriate. OEB staff also notes that the OEB may identify that the issue related to the timing of the next deferral and variance account balance disposition will be excluded from settlement.

Further, OEB staff notes that OPG will file an annual application for the price cap adjustment for hydroelectric payment amounts. As an alternative, OEB staff submits that the OEB could decide not to hear this issue in the current proceeding and direct OPG and parties to file proposals regarding an appropriate schedule for clearance of deferral and variance accounts, in the 2020 price cap proceeding.

All of which is respectfully submitted

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<sup>7</sup> EB-2010-0008, Decision with Reasons, Section 12 – Reporting and Record Keeping Requirements, page 151, March 10, 2011.