

24 January 2014

Ontario Energy Board
2300 Yonge St., 27th Floor
Toronto, ON
M4P 1E4

Attn: Ms Kirsten Walli
Board Secretary

By electronic filing and e-mail

Dear Ms Walli:

Re: EB-2013-0321 – OPG Payment Amounts – GEC submissions on draft issues

Pursuant to Procedural Order No. 1 in this matter, please find attached GEC's submissions on the draft issues list.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Poch', with a stylized flourish at the end.

David Poch

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application by Ontario
Power Generation Inc. pursuant to section 78.1 of the
Ontario Energy Board Act, 1998 for an order or orders
determining payment amounts for the output of
certain of its generating facilities.

GEC Comments on Draft Issues

Pursuant to Procedural Order No. 1 in this matter, GEC offers the following comments on the draft issues list:

Issue 4.9:

Board Staff have questioned the inclusion of this issue pertaining to DRP commercial and contracting strategies noting that only a small proportion of DRP costs are proposed to close into rates in the test period and that the Board and OPG have previously taken the position that the prudence of major projects is to be considered in a review after the fact. GEC agrees that OPG should not be able to obtain pre-approval of costs through such a review and notes that in a related matter, the Board previously rejected OPG's bid for CWIP which would have had that effect in part. However, GEC submits that the issue should be included in a limited fashion as part of Issue 4.10 (compliance with LTEP policy). The government has explicitly called for a step-wise approach to refurbishments with specific reference to off-ramps and has called for a risk externalization approach to contracting. Five of the seven principles address these goals and amount to a direction that OPG must avoid leaving ratepayers and taxpayers 'holding the bag' if costs rise, delays occur, or refurbishments are cancelled. We refer to the following five principles:

The nuclear refurbishment process will adhere to the following principles:

1. Minimize commercial risk on the part of ratepayers and government;
3. Entrench appropriate and realistic off-ramps and scoping;
5. Require OPG to hold its contractors accountable to the nuclear refurbishment schedule and price;

6. Make site, project management, regulatory requirements and supply chain considerations, and cost and risk containment, the primary factors in developing the implementation plan; and
7. Take smaller initial steps to ensure there is opportunity to incorporate lessons learned from refurbishment including collaboration by operators.

If OPG were a private company, the Board could simply test adherence to these principles after the fact, but here there is no shareholder distinct from ratepayers to bear the costs if OPG's efforts are subsequently found to be non-compliant and/or imprudent.

Accordingly, GEC suggests a middle ground. The Board should require a demonstration that the structure of OPG's commercial and contracting strategies *prima facie* comply with the policy directives (which largely address contract structure not price) but explicitly avoid a finding of prudence. Such a review could result in the avoidance of inappropriate contract commitments that do not adequately off-load risk, or the early renegotiation of existing contracts to enable compliance.

Board Staff also ask why OPG would limit this issue to DRP work rather than having it applied to all of its projects. GEC submits that it is indeed appropriate to include other major projects that are the subject of the government's policy pronouncements, specifically the Pickering life extension. As discussed below, the LTEP policy is to allow for the possible earlier shutdown of these units so contract strategies should enable that possibility.

Issue 4.10:

GEC Proposed amendment:

4.10 Does OPG's nuclear refurbishment and life extension processes align appropriately with the principles stated in the Government of Ontario's Long Term Energy Plan issued on December 2, 2013?

Rationale:

The recent policy directions contained in the LTEP include seven guidelines applicable to refurbishments as well as a specific reference to the possible earlier shutdown of the Pickering units: "an earlier shutdown of the Pickering units may be possible depending on projected demand, the progress of the fleet refurbishment program, and the timely completion of the Clarington Transformer Station". (These positions were reiterated in the Minister's letter to OPG, attached.) GEC submits that it is appropriate for the Board to ensure that any contracting for life extensions as well as for refurbishments adequately addresses both the seven specific guidelines and the potential earlier shutdown of Pickering.

Issues 6.11, 6.12:

Possible added issue 6.13 (if not deemed included in issues 6.11 & 6.12):

Are the proposed depreciation periods for nuclear assets appropriate given the principles stated in the Government of Ontario's Long Term Energy Plan issued on December 2, 2013 including the call for refurbishment off-ramps and the potential earlier shutdown of the Pickering units?

Rationale:

The Government policy statement makes specific reference to off-ramps for refurbishment and for potential early shutdown of Pickering. Given these explicit government policies there is a significant possibility that station life will be reduced. In such circumstances it may be appropriate to recover capital costs over a shorter timeframe to avoid inter-generational inequities.

All of which is respectfully submitted this 24th day of January, 2014

**David Poch
Counsel to the GEC**

Ministry of Energy
Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754

Ministère de l'Énergie
Bureau du ministre

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Téléc. : 416 327-6754



DEC 17 2013

MC-2013-3327

The Honourable Jake Epp
Board Chair
Ontario Power Generation Inc.
1108 4th Street NW
Calgary AB T2M 2Y4

Dear Mr. Epp:

Ontario recently released *Achieving Balance*, the result of a comprehensive review of its energy plans for the future. The new plan, which reflects input from thousands of Ontarians, balances five principles that will guide future decisions: cost-effectiveness, reliability, clean energy, community engagement, and an emphasis on conservation and demand management before building new generation.

As Chair of the board of Ontario Power Generation (OPG), I want to acknowledge your contribution to the significant progress we have made in building a reliable and clean energy system. I would also like to ensure your co-operation and commitment in implementing a number of initiatives identified in the 2013 Long-Term Energy Plan (LTEP), and highlight a number of initiatives of specific relevance to OPG, not to the exclusion of any other priorities for your organization as identified through 2013 LTEP.

Conservation First

Ontario has adopted a policy of putting conservation first that will require a co-ordinated approach between the government, its energy agencies and electricity and natural gas utilities. The Ministry of Energy will work with its agencies, including OPG, to ensure that conservation is considered first in planning approval and procurement processes.

Coal

As part of Ontario's effort to phase out coal-fired generation by the end of 2014, the government intends to convert one unit at the Thunder Bay Generating Station (TBGS) to run on advanced biomass over a five-year term, starting in 2015, preserving operational capacity for the future. I ask that you work with the Ontario Power Authority and the Ministry of Energy to implement the conversion of TBGS.

Nuclear

At this time, we will not proceed with the construction of two new nuclear reactors at the Darlington Generating Station. However, I ask that OPG works with the Ministry of Energy to maintain the site licence granted by the Canadian Nuclear Safety Commission.

.../cont'd

The LTEP identifies that four units at Darlington will be refurbished beginning in 2016. LTEP sends a clear signal of Ontario's strong commitment to the nuclear industry for years to come. At the same time, refurbishment must be implemented subject to processes designed to minimize risk to ratepayers and to government, adhering to seven principles outlined in the 2013 LTEP.

I would also ask that you work with Bruce Power to find ways of leveraging economies of scale in the area of refurbishment and operations. This could include suppliers, procurement of materials, shared training, lessons learned, labour arrangements and asset management strategies. To facilitate, I have asked Ministry of Energy staff to work with you and Bruce Power to convene a working group.

Achieving Balance confirmed the Government's intention to proceed with refurbishment of Ontario's nuclear fleet at Darlington and Bruce Power sites, subject to the following principles:

1. Minimize commercial risk on the part of ratepayers and government;
2. Mitigate reliability risks by developing contingency plans that include alternative supply options if contract and other objectives are at risk of non-fulfillment;
3. Entrench appropriate and realistic off-ramps and scoping;
4. Hold private sector operator accountable to the nuclear refurbishment schedule and price;
5. Require OPG to hold its contractors accountable to the nuclear refurbishment schedule and price;
6. Site, project management, regulatory requirements and supply chain considerations, and cost and risk containment, should be the primary factors in developing the implementation plan; and
7. Take smaller initial steps to ensure there is opportunity to incorporate lessons learned from refurbishment including collaboration by operators.

These principles reaffirm ratepayer value as the fundamental driver behind decisions on future refurbishments. As we expect Bruce Power and OPG to begin refurbishment of one unit each in 2016, please note that final commitments on subsequent refurbishments will take into account the performance of these initial refurbishments with respect to budget and schedule by establishing appropriate off-ramps.

Also stated in the LTEP, the early shutdown of the Pickering Generating Station may be possible, depending on projected demand going forward, the progress of the fleet refurbishment program, and the timely completion of the Clarington Transformer Station.

Rate Mitigation and Efficiencies

OPG is expected to pursue opportunities to expand business lines where they currently operate and have expertise both inside and outside Ontario. OPG is also encouraged to seek strategic partnership opportunities to expand its business and increase shareholder value.

Additionally, we expect OPG to develop meaningful efficiency targets, reduce costs and save money for ratepayers.

.../cont'd

I look forward to our continued partnership for successful implementation of Ontario's 2013 LTEP.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Chiarelli', with a long horizontal stroke extending to the right.

Bob Chiarelli
Minister

Enclosure