

**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27^e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

March 31, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
Board File No. EB-2013-0321**

In accordance with Procedural Order No. 4, please find attached Board staff's submission on prioritization of the issues list with respect Ontario Power Generation Inc.'s application for 2014-2015 payment amounts.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

ONTARIO POWER GENERATION INC.
2014-2015 PAYMENT AMOUNTS
PRIORITIZATION OF ISSUES LIST

EB-2013-0321

Board Staff Submission

March 31, 2014

Introduction

Ontario Power Generation Inc. (“OPG”) filed an application, dated September 27, 2013, with the Ontario Energy Board under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) seeking approval for increases in payment amounts for the output of certain of its generation facilities.

On March 21, 2014, the Board issued Procedural Order No. 4 which made provision for submissions on prioritization of the issues list set out in Procedural Order No. 3 issued on February 19, 2014.

In the previous cost of service decision, EB-2010-0008, the Board concluded that, “a number of issues which parties pursued vigorously in cross-examination and argument were not of sufficiently high priority in terms of the dollars or the principle involved.” As a result, the Board established the prioritization process to enhance the efficiency and effectiveness of the oral hearing. Board staff has reviewed the interrogatory responses filed by OPG on March 19, 2014 and March 26, 2014. Board staff submits that the Board could consider the following issues as secondary issues and, in the event the issues are not settled, proceed by way of written hearing.

CAPITAL STRUCTURE AND COST OF CAPITAL

- 3.1 What is the appropriate capital structure and rate of return on equity for the currently regulated facilities and newly regulated facilities?
- 3.2 Are OPG’s proposed costs for its long-term and short-term debt components of its capital structure appropriate?

Capital structure and cost of capital were extensively reviewed in the first cost of service proceeding, EB-2007-0905. Technology-specific cost of capital was reviewed in the second cost of service proceeding, EB-2010-0008. The Board accepted that business risks associated with the nuclear business are higher than those of the regulated hydroelectric business, but found that the evidence in the proceeding did not provide a basis to set technology-specific costs of capital by way of division-specific capital structures.

OPG has applied the capital structure approved in EB-2010-0008, and the methodology for return on equity and debt components approved in EB-2010-0008. As no parties

have indicated that intervenor evidence will be filed on the matter, Board staff submits that it is reasonable to consider issues 3.1 and 3.2 as secondary issues. A written hearing is reasonable for these matters.

CAPITAL PROJECTS

- 4.1 Do the costs associated with the regulated hydroelectric projects that are subject to section 6(2)4 of O. Reg. 53/05 and proposed for recovery (excluding the Niagara Tunnel Project), meet the requirements of that section?
- 4.6 Do the costs associated with the nuclear projects that are subject to section 6(2)4 of O. Reg. 53/05 and proposed for recovery, meet the requirements of that section?

Section 6(2)4 of O. Reg. 53/05 states that:

The Board shall ensure that Ontario Power Generation Inc. recovers capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2, including, but not limited to, assessment costs and pre-engineering costs and commitments,

- i. if the costs and financial commitments were within the project budgets approved for that purpose by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., or
- ii. if the costs and financial commitments were not approved by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., if the Board is satisfied that the costs were prudently incurred and that the financial commitments were prudently made.

Based on Board staff's review of interrogatories, none were filed under issue 4.1 or 4.6. The Niagara Tunnel Project costs are addressed by issue 4.4. Board staff submits that issues 4.1 and 4.6 are secondary issues.

OPERATING COSTS

- 6.13 Are the amounts proposed to be included in the test period revenue requirement for income and property taxes appropriate?
- 6.14 Are the asset service fee amounts charged to the regulated hydroelectric and nuclear businesses appropriate?
- 6.15 Are the amounts proposed to be included in the test period revenue requirement for other operating cost items appropriate?

Board staff submits it is appropriate to have a written hearing for issues 6.13, 6.14 and 6.15. While taxes, specifically income taxes, may change as a result of changes in other aspects of the application, Board staff submits that these changes and the mechanisms for determination of the taxes are fairly mechanistic and suitable for review by written hearing. The asset service fee is a secondary issue as amounts for the hydroelectric business are approximately \$5M annually, and \$25M annually for the nuclear business. The year over year variances are less than \$1M. No other operating cost items have been identified to date.

OTHER REVENUES

- 7.1 Hydroelectric - Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?
- 7.2 Are the forecasts of nuclear business non-energy revenues appropriate?

Based on staff's review of the interrogatories and responses, the main focus for these issues is variances with respect to Board-approved or planned, and changes in operating reserve prices. Board staff submits that it is reasonable to consider issues 7.1 and 7.2 as secondary issues.

However, Board staff notes that examination of the Hydroelectric Incentive Mechanism ("HIM") may refer to the HIM Revenue Requirement Adjustment aspect of Hydroelectric Other Revenue, and that examination should proceed by way of oral hearing, if not settled.

NUCLEAR WASTE MANAGEMENT AND DECOMMISSIONING LIABILITIES

- 8.1 Is the revenue requirement methodology for recovering nuclear liabilities in relation to nuclear waste management and decommissioning costs appropriate? If not, what alternative methodology should be considered?

The revenue requirement methodology for recovery of nuclear liabilities was reviewed in the first cost of service proceeding, EB-2007-0905. OPG has provided the financial impacts of the current approved Ontario Nuclear Funds Agreement Reference Plan. OPG states that it has applied the same methodologies for deriving the financial impacts as were applied in the previous cost of service proceeding (EB-2010-0008), and the Deferral and Variance Account and US GAAP proceeding, EB-2012-0002. As no parties have indicated that intervenor evidence will be filed on the matter, Board staff

submits that it is reasonable to consider issue 8.1 as a secondary issue. A written hearing is reasonable for this matter.

DEFERRAL AND VARIANCE ACCOUNTS

- 9.1 Is the nature or type of costs recorded in the deferral and variance accounts appropriate?
- 9.2 Are the balances for recovery in each of the deferral and variance accounts appropriate?
- 9.3 Are the proposed disposition amounts appropriate?
- 9.4 Is the disposition methodology appropriate?
- 9.5 Is the proposed continuation of deferral and variance accounts appropriate?
- 9.6 Is OPG's proposal to not clear deferral and variance account balances in this proceeding (other than the four accounts directed for clearance in EB-2012-0002) appropriate?

In the EB-2012-0002 Deferral and Variance Account and USGAAP proceeding, the operation of the majority of deferral and variance accounts was examined in detail. In the current proceeding, OPG proposes to clear the audited December 31, 2013 balances in four variance accounts, as it was directed to in the EB-2012-0002 proceeding. Board staff submits that it is reasonable to address the transactions, amortization and interest for any of the deferral and variance accounts, proposed disposition for the four accounts, and potential disposition of other accounts by way of written hearing.

However, Board staff submits that revenue requirement examination of a primary issue with a related deferral and variance account (e.g. pension) would, by association, allow examination of the account by way of oral hearing.

REPORTING AND RECORD KEEPING REQUIREMENTS

- 10.1 What additional reporting and record keeping requirements should be established for OPG?

In the previous cost of service decision, the Board established a list of reports that OPG would file beginning in 2011. Board staff submits that any party or the Board can comment or propose revisions to that list of reports by way of written hearing.

METHODOLOGIES FOR SETTING PAYMENT AMOUNTS

- 11.1 Has OPG responded appropriately to Board direction on establishing incentive regulation?
- 11.2 Is the design of the regulated hydroelectric and nuclear payment amounts appropriate?
- 11.3 To what extent, if any, should OPG implement mitigation of any rate increases determined by the Board? If mitigation should be implemented, what is the appropriate mechanism that should be used?

After completing a stakeholder consultation in 2012, the Board issued its report, *Incentive Rate-making for Ontario Power Generation's Prescribed Generation Assets*, EB-2012-0340 on March 28, 2013. That report set out next steps to which OPG has responded in the current application. Board staff is not aware that any parties plan to file evidence on this matter, therefore Board staff submits that parties can make submissions on OPG's response to the Board report and EB-2010-0008 decision by way of written hearing.

OPG has not proposed changes to the design of payments amounts, or mitigation of any rate increases determined by the Board. However, Board staff submits that parties can make submissions on these matters by way of written hearing.

IMPLEMENTATION

- 12.1 Are the effective dates for new payment amounts and riders appropriate?

OPG requests an effective date of January 1, 2014 for the nuclear and previously regulated hydroelectric facilities. OPG requests an effective date of July 1, 2014 for the newly regulated hydroelectric facilities. Board staff submits that parties can file written submissions for the Board's consideration on this matter.

All of which is respectfully submitted