

March 31, 2014

BY COURIER (2 COPIES) AND EMAIL

Ms. Kirsten Walli

Board Secretary

Ontario Energy Board

P.O. Box 2319

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Toronto, Ontario M4P 1E4

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Dear Ms. Walli:

**Re: Environmental Defence Correspondence
EB-2013-0321 – Ontario Power Generation Inc. (“OPG”)
2014-2015 Payment Amounts Application**

We write to provide submissions on behalf of Environmental Defence regarding the prioritization of issues in this matter.

Environmental Defence respectfully submits that issues 4.12 and 6.3 should be designated as priority issues. These issues were not identified as priority issues in OPG’s application.

In EB-2010-0008 (the most recent payment amounts decision) the Board held that, in the next payment amounts application, “issues must be prioritized to ensure that the most significant issues, in terms of dollars and/or in terms of principle, are adequately investigated to ensure an appropriate outcome.” Issues 4.12 and 6.3 should be designated as priority issues because they are highly significant in terms of dollars and principle.

Issue 4.12: Does OPG’s nuclear refurbishment process align appropriately with the principles stated in the Government of Ontario’s Long Term Energy Plan issued on December 2, 2013?

Issue 4.12 asks whether the Darlington refurbishment process aligns with the principles set out in the Long-Term Energy Plan. From a “dollars” perspective, issue 4.12 is a priority issue because it relates to the protection of Ontario consumers from the kinds of cost overruns that have plagued nuclear projects in the past. The seven Long-Term Energy Plan principles (excerpted in schedule A to this letter) focus on cost and risk issues, with the aim of protecting the consumer. This goes to the core of the Board’s mandate.

Based on past performance, the likelihood of cost overruns is high. Every nuclear project in Ontario's history has gone over budget.¹ The potential dollar impact of cost overruns is huge. Darlington itself was more than \$11 billion (or 4.5 times) over budget.² This is clearly an important issue.

Issue 4.12 is also important because the Long-Term Energy Plan is a foundational document in the Government of Ontario's energy policy. It is important that OPG's plans align with that foundational document.

Issue 6.3: Is the test period Operations, Maintenance and Administration budget for the nuclear facilities appropriate?

Issue 6.3 asks whether the OM&A budget for the nuclear facilities is appropriate. This is a particularly important issue as it relates to the Pickering generating station.

The OM&A costs for Pickering have historically been very high and thus have attracted significant attention from interveners and the Board. For example, in EB-2007-0905, Board Staff, AMPCO, and others interveners argued that:

- “[O]ver the 2005 to 2007 period, the average cost of Pickering A power was double the Hourly Ontario Energy Price and the nuclear payment amount received by OPG under O. Reg. 53/05.”³
- “The average cost per MWh at Pickering A over the three-year period was \$107 compared to \$24 for the U.S. median and \$41 for Bruce Power.”⁴
- “Pickering A is almost five times more costly than the top quartile of U.S. operations, while Pickering B is two and a half times more costly.”⁵

In light of these and other submissions, the Board held that it would “only allow the recovery of reasonable costs” and that “consumers will not bear production risk.”⁶ The Board ultimately decided to disallow 10% of the Base OM&A costs of Pickering A.⁷ The Board clearly believed that the reasonableness of these costs was an important issue.

It appears that the total OM&A costs of Pickering are not covered elsewhere in the issues list. In particular, issue 6.6 refers to the reasonableness of the costs associated with “continued operations” at Pickering. This appears to refer to the short-term extension to

¹ *Ontario's History of Nuclear Cost Overruns and Ontario Hydro's Stranded Nuclear Debt*, Appendix A to Darlington Re-Build Consumer Protection Plan by the Ontario Clean Air Alliance Research Inc., September 23, 2010 (<http://www.cleanairalliance.org/files/active/0/darlington.pdf>).

² *Ibid.*

³ EB-2007-0905, Decision and Reasons, November 3, 2008, p. 27.

⁴ EB-2007-0905, Decision and Reasons, November 3, 2008, p. 25.

⁵ EB-2007-0905, Decision and Reasons, November 3, 2008, p. 25.

⁶ EB-2007-0905, Decision and Reasons, November 3, 2008, p. 28.

⁷ EB-2007-0905, Decision and Reasons, November 3, 2008, p. 31.

the operating life of Pickering Units 5-8, not to the overall OM&A of the Pickering generating station.⁸

The reasonableness of the costs of Pickering, particularly in comparison to alternatives and benchmarks, is an important issue.

Issue 4.7: Are the proposed nuclear capital expenditures and/or financial commitments reasonable?

Environmental Defence asked a number of interrogatories under issue 4.7 relating to the Darlington refurbishment. Issue 4.7 was not identified as a priority issue by OPG. However, it appears that issues relating to the costs and risks of the Darlington refurbishment project can be addressed under issues 4.10 and 4.12.


Environmental Defence requests that issue 4.7 be designated as a priority issue if OPG objects to Environmental Defence addressing issues relating to the costs and risks of the Darlington refurbishment project under issues 4.10 and 4.12. The next steps in the Darlington refurbishment will cost over \$1.5 billion over two years. The importance examining of the reasonableness of these expenditures and financial commitments is self-evident.

Conclusion

In sum, Environmental Defence submits that issues 4.12 and 6.3 should be designated as priority issues because they are highly significant both in terms of dollars and principle. In addition, issue 4.7 should be added as a priority issue if OPG's position is that the costs and risks of the Darlington refurbishment project cannot be addressed under issues 4.10 and 4.12.

Please do not hesitate to contact me should anything further be required or of assistance.

Yours truly,



Kent Elson

Encl.

cc: Applicant and Intervenors

⁸ See Exhibit F2-2-3 p. 1 and Exhibit F1-1-1 table 1.

Schedule A

Long-Term Energy Plan Principles

Excerpt from page 29 of the Long-Term Energy Plan:

The nuclear refurbishment process will adhere 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. 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.