

Board Staff Interrogatory #78

Ref: Exh A1-3-1 (page 4-5); N1-1-1 (Chart 11)

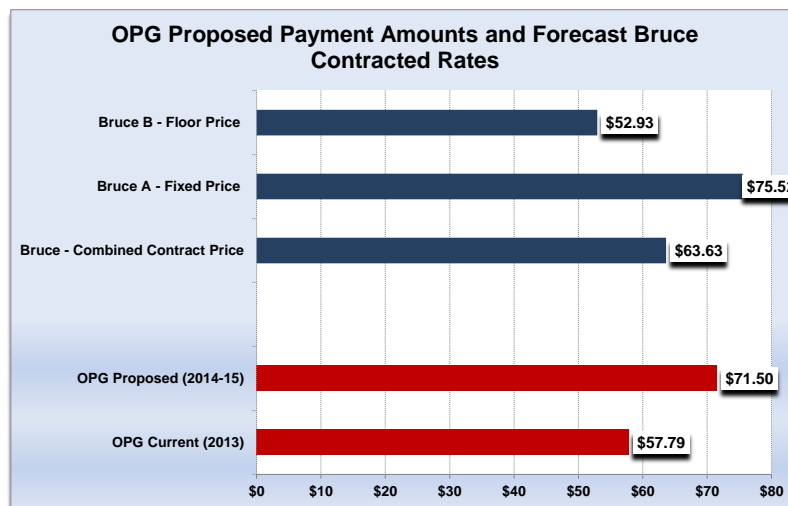
Issue Number: 6.3

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

Interrogatory

The application notes it is important to consider OPG's payment amounts within the context of the greater Ontario electricity industry as a whole. For the first six months of 2013, OPG's average revenue was 5.6 cents/kWh, whereas the average revenue for all other electricity generators was 10.1 cents/kWh.

- a) Please explain why OPG believes it is appropriate and relevant to compare its payment amounts to those of non-nuclear generators including those with OPA FIT contracts such as wind and solar generators?
- b) For the purpose of this application, would it not be also be appropriate to compare OPG's proposed nuclear payment amounts against other similar nuclear plants, such as Bruce Power's contracted rates?
- c) The chart below shows such a comparison with Bruce Power's contracted rates adjusted (fuel and inflation) based on the forecast in the Board's most recent RPP Price Report. Bruce Power's forecast combined contract rate (Bruce A and Bruce B) is \$63.63/MWh and OPG's proposed payment amount (including riders) is \$71.50/MWh. Please provide OPG's views on why its forecasted 2014-2015 proposed payment amounts for Pickering and Darlington are more than 10% higher than the Bruce combined contract price.



Response

- a) OPG believes it is important for consumers to understand the cost of its generation portfolio relative to other generators in the Province. The majority of OPG's operations are regulated and the public has a view into the operations of OPG through its public filings and the hearing process at the OEB. The same is not true for other generators. In terms of OPG being a low cost generator in the Province, it is important to provide that overall context. It is reasonable for OPG to compare its payment amounts against non-nuclear generators including those with OPA FIT contracts such as wind and solar generators, since they are all sources of electricity used by consumers in the province to meet their electricity needs.
- b) While there would be value in doing a comparison with an organization such as Bruce Power that would only be the case if the comparison were truly "apples to apples". As all of the terms of the contract with Bruce Power are not publically available, it would be difficult to gain a complete understanding of the Bruce Power deal such that this comparison could be fairly done. As an example, a 2009 report by the Auditor General of Ontario confirmed that Bruce Power receives compensation for its fuel costs for Bruce A outside of the contracted price whereas OPG's cost of service includes fuel.
- c) The values quoted in the chart for Bruce Power did not come from OPG, nor is OPG privy to all of the terms of the Bruce Power contract to be able to compare our cost of service application to their Power Purchase Agreement contract. However, there are several areas that are known to be different:
- The nuclear rate quoted for OPG is inclusive of variance account riders. These reflect costs deferred from previous years to be recovered in the current year. Assuming that the PPA with Bruce Power does not have a similar construct and compensates Bruce Power for costs in the year incurred, the proper comparison should be to the nuclear base rate requested of \$67.60 per MWh.
 - The rates quoted in the chart above by Board staff for Bruce Power are similar to their rates in 2013 and should be escalated by inflation for 2014 and 2015. Our estimate is for the combined Bruce rate to be in excess of \$66 in 2015. The OPG base rate is constant for the years 2014 and 2015.
 - OPG is fully responsible for the management of decommissioning and nuclear waste management (collective referred to as "nuclear liabilities"). This includes the nuclear liabilities for the prescribed nuclear assets as well as those of the Bruce site under contract to Bruce Power. The nuclear liabilities are revalued on a regular basis as part of the Ontario Nuclear Funds Agreement ("ONFA") reference plan update process. Ontario Regulation 53/05 explicitly allows for nuclear base rates to include the increased costs from an approved ONFA reference plan. The base nuclear rates in this application include increases arising from the approved ONFA Reference Plan that impacted nuclear liability costs commencing in 2012 (a variance account has been used to accumulate impacts from 2012 and 2013). The impact on revenue requirement arising from this plan is an increase of approximately \$4.53 per MWh.

1
2 For the test period there is no mechanism in the lease and its ancillary agreements for
3 OPG to recover from Bruce Power increased costs associated with the nuclear waste
4 generated by operation of the Bruce A and Bruce B generating stations. Where incurred,
5 such increased costs are directed to the Bruce variance account, to be recovered by
6 OPG from the ratepayers. Bruce Power's power pricing contract with the OPA is not tied
7 to the ONFA Reference Plan to reflect increased costs of nuclear waste liabilities. There
8 are no provisions in the current lease term for OPG to recover directly from Bruce Power
9 increased nuclear waste liability costs.

- 10
11 • The contracted price Bruce Power receives is assumed to allow for recovery of base and
12 supplemental rents that Bruce Power pays to OPG. While the revenue Bruce Power
13 earns from Bruce B price is fixed, there is a condition in the contract that allows for a
14 refund to Bruce Power of supplemental rents should HOEP in the Province be below an
15 average of \$30 / MWh in a given year. These additional payment to Bruce Power should
16 be added to the contracted rate in the year such payment occurs.
17
18 • OPG is also not privy to any other arrangements or contracts for reimbursement from the
19 OPA that potentially should be added to the stated contract rate in order to do a
20 complete comparison.
21
22 • And finally, all Bruce Power units and Darlington units have larger capacity ratings than
23 Pickering. The six units at Pickering are smaller in capacity and as a result, the per MWh
24 rate for Pickering units will be higher than both Darlington and Bruce Power rates, even
25 if operating costs for Pickering facilities were identical on a per unit dollar basis.