

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

December 5, 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**

Please find attached the Board staff submission with respect to Ontario Power Generation Inc.'s draft Payment Amounts Order relating to 2014-2015 payment amounts.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

ONTARIO POWER GENERATION INC.
2014-2015 PAYMENT AMOUNTS
DRAFT PAYMENT AMOUNTS ORDER

EB-2013-0321

Board Staff Submission

December 5, 2014

INTRODUCTION

Ontario Power Generation Inc. (“OPG”) filed an application with the Ontario Energy Board (the “Board”) on September 27, 2013. The application was filed under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O 1998, c. 15 (Schedule B), seeking approval for payment amounts for OPG’s previously regulated hydroelectric facilities and nuclear facilities for the test period January 1, 2014 through December 31, 2015, to be effective January 1, 2014. The application also sought approval for payment amounts for newly regulated hydroelectric facilities to be effective July 1, 2014.

On November 20, 2014, the Board issued its Decision with Reasons on OPG’s application. The following are Board staff’s comments regarding the draft Payment Amounts Order filed by OPG on December 1, 2014.

COMMENTS ON DRAFT PAYMENT AMOUNTS ORDER

Hydroelectric Incentive Mechanism

The Board found that the hydroelectric revenue requirement would be adjusted by 50% of the forecast hydroelectric incentive mechanism revenues of \$78M in 2014 and \$96M in 2015. Board staff has reviewed the evidence relating to the hydroelectric incentive mechanism and agrees with OPG that the forecast of total incentive payment net of adjustment due to surplus baseload generation should be \$51M in 2014 and \$58M in 2015, and that the revenue requirement adjustments should be based on these forecasts.

Hydroelectric Rate Base

There are two findings in the Decision related to hydroelectric rate base: one regarding hydroelectric in-service additions excluding Niagara Tunnel, and the other regarding Niagara Tunnel in-service additions.

Table 1 (Summary of Previously Regulated Hydroelectric Revenue Requirement and Variance and Deferral Account Amortization Amounts) and Table 2 (Summary of Newly Regulated Hydroelectric Revenue Requirement and Variance and Deferral Account Amortization Amounts) found in Appendix A of the draft Payment Amounts Order show adjustments to rate base, as calculated by OPG to reflect the impact of the Board’s findings. Board staff has been unable to verify these calculations. Board staff submits that a more detailed reconciliation, indicating the impact of each of the two findings and

indicating each step taken to turn the Board's findings into the adjustment amounts shown in the tables, is needed to support the appropriateness of the adjustments.

Regulatory Income Taxes

Board staff has comments on two aspects of regulatory income taxes.

Tax Loss Carry-Over

In Table 7 of Appendix A in the draft Payment Amounts Order (Summary of Changes in Regulatory Income Taxes for Prescribed Facilities, Year Ending December 31, 2014), there is a negative amount of \$284M for Tax Loss Carry-over being applied to determine the Regulatory Taxable Income for 2014 at line 22(c). Note 5 states:

Tax loss carry-over in col. (c) consists of the application of the 2013 nuclear regulatory tax loss of \$211.6M as directed by the Board (Decision with Reasons, p. 101) to the nuclear portion of the 2014 regulatory taxable income, followed by the carry-back of a \$72.4M portion of the 2015 forecast stand-alone nuclear regulatory tax loss (Payment Amounts Order, App. A, Table 8, line 22, col. (c)), up to the amount of the remaining nuclear regulatory taxable income in 2014.

Table 8, at line 22(c), shows a positive amount of \$72.4M for Tax Loss Carry-Over being applied to determine the Regulatory Taxable Income for 2015. Staff submits that the derivation of the \$72.4M Tax Loss Carry-Over, and its application between 2014 and 2015 are unclear. Staff submits that it would be helpful if OPG provided a detailed calculation on the derivation of this amount as well as a detailed explanation for the movement between the years.

Single Payment Amounts Adjustments

In Table 7a of Appendix A in the draft Payment Amounts Order (Notes to Table 7 - Summary of Changes in Regulatory Income Taxes for Prescribed Facilities, Year Ending December 31, 2014), there is an amount in the Board Adjustment column at line 22(a) of \$129.1M for "Single Payment Amounts Adjustment" which is not explained. Similarly, in Table 8a of Appendix A in the draft Payment Amounts Order (Notes to Table 8 - Summary of Changes in Regulatory Income Taxes for Prescribed Facilities, Year Ending December 31, 2015), there is a negative amount in the Board Adjustment column at line 22(a) of \$129.1M for "Single Payment Amounts Adjustment" which is not explained.

While there does not appear to be an impact on the combined test period, Board staff submits that OPG should explain why the adjustments are necessary and what the impacts on the payment amounts would be if the Board does not accept the adjustments.

Revenue Requirement Work Form

OPG filed a Revenue Requirement Work Form with the original application, the December 6, 2013 Exhibit N1 update and the May 16, 2014 Exhibit N2 update. OPG did not file a Revenue Requirement Work Form reflecting the Board's Decision with its draft Payment Amounts Order. The purpose of the Revenue Requirement Work Form is to summarize the movement of the application components from the original application to the final decision. Board staff submits that a Revenue Requirement Work Form reflecting the Decision should be filed with the reply submission. The document should be filed in PDF and Excel versions.

Deferral and Variance Account Descriptions

OPG has provided descriptions of each deferral and variance account in Appendix G of the draft Payment Amounts Order. Board staff notes that the descriptions have been updated with respect to the descriptions approved in the USGAAP and Deferral and Variance Account proceeding, EB-2012-0002. Board staff agrees with the majority of the updated descriptions, but provides comments on the following:

Deferral and Variance Account Payment Amounts Rider Nomenclature

The nuclear and hydroelectric riders for the amortization of approved balances are described on pages 3 and 4 of the draft Payment Amounts Order. Board staff submits that the use of a rider nomenclature consistent with the EB-2012-0002 payment order, namely Nuclear Rider 2015 and Previously Regulated Hydroelectric Rider 2015, would have enduring value for tracking purposes.

Ancillary Services Net Revenue Variance Account - Hydroelectric

The description of the account states the following:

OPG shall ensure that amounts recorded in the account do not include those that OPG indicated it is not seeking to recover from, or refund to, ratepayers as part of the differences between the revenue requirement in its pre-filed evidence dated September 27, 2013 and the information based on OPG's 2014-2016 Business Plan. These amounts are outlined

in OPG's Impact Statement dated December 6, 2013, as found at EB-2013-0321, Ex. N1-1-1 Chart 1.

In Exhibit N1, OPG increased the test period ancillary services revenue for the previously regulated hydroelectric facilities by \$28.5M. Board staff submits that the paragraph above should be revised to only apply to the newly regulated hydroelectric sub-account.

Ancillary Services Net Revenue Variance Account - Nuclear

The description of the account states that the monthly reference amount shall be 1/24 of the total forecast amount of \$3.4M for 2014 and 2015 underpinning the two-year revenue requirement. Board staff submits that, based on Exhibit G2, the reference amount should be based on a total forecast amount of \$3.8M for 2014 and 2015.

Bruce Lease Net Revenues Variance Account

The proposed description in the draft Payment Amounts Order specifies that OPG shall not record any interest on either sub-account balance during a two-month stub period from November 1, 2014 to December 31, 2014. This is in conjunction with continuance of the EB-2012-0002 payment amounts order and the associated description which specifies that the account balance shall not attract interest for the period from January 1, 2013 to December 31, 2014. In the draft Payment Amounts Order, OPG proposes that interest on the account commence on January 1, 2015.

In the Settlement Agreement approved in the EB-2012-0002 Board decision, it was contemplated that the applicability of interest to this account would be revisited in OPG's next payment amounts application. OPG's position appears to be that in the absence of any disposition of this account balance, interest would now accrue in this account effective on January 1, 2015. Staff submits that the proposal is inappropriate since a review and decision of the Board on this matter was expected to occur prior to January 1, 2015 and that no disposition took place in this proceeding due to OPG's decision to not bring forward this balance for disposition. Staff therefore submits that interest should not accrue effective on January 1, 2015 until such time as OPG files an application seeking clearance of the account balance at which time the Board could then determine whether or not to authorize interest for this account.

Gross Revenue Charge Variance Account

The description of the account states that, “The impact shall be determined by applying the approved reduction to the forecast gross revenue charge costs included in the revenue requirement approved by the Board for 2014 and 2015, holding all other variables constant. The impact shall be calculated as of the later of November 1, 2014 and the effective date of the approved gross revenue charge reduction.”

Staff submits the description should include “under Ontario Regulation 124/02” after “...the approved reduction” so it reads “...the approved reduction under Ontario Regulation 124/02...”

Pension & OPEB Cash Versus Accrual Differential Deferral Account

The description of the account states that, “The deferral account shall also record any associated income tax impacts.” Board staff notes that the account will record non-cash amounts that are not current. While these timing differences may give rise to deferred taxes in the test period there are no current tax implications for regulatory revenue requirement. At pages 92 and 123 of the Decision, there are descriptions of the amounts to be recorded in the account, i.e. the difference between cash and accrual pension and OPEB amounts. Board staff submits that the Board can deal with the tax implications when the Board makes a determination regarding the account balance in a future proceeding. As such, Board staff submits that tax impacts should not be recorded in the deferral account.

Miscellaneous

The acronym “OEB” should be replaced with “Board” in account descriptions. The acronym “PILS” should be replaced with “PILs”.

All of which is respectfully submitted