

**Ontario Energy
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**Commission de l'énergie
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BY E-MAIL

September 9, 2016

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
2017-2021 Payment Amounts
Ontario Energy Board File Number EB-2016-0152**

In accordance with Procedural Order No. 1, please find attached OEB staff's reply submission relating to the issues list in the above noted proceeding. OPG and all intervenors have been copied on this filing.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

ONTARIO POWER GENERATION INC.
2017-2021 PAYMENT AMOUNTS
EB-2016-0152

Ontario Energy Board
Staff Reply Submission
Issues List

September 9, 2016

Introduction

Ontario Power Generation Inc. (OPG) filed an application with the Ontario Energy Board (OEB) on May 27, 2016, seeking approval for changes in payment amounts for the output of its nuclear generating facilities and most of its hydroelectric generating facilities. The request seeks approval for nuclear payment amounts to be effective January 1, 2017 and for each following year through to December 31, 2021. The request seeks approval for hydroelectric payment amounts to be effective January 1, 2017 to December 31, 2017 and approval of the formula used to set the hydroelectric payment amount for the period January 1, 2017 to December 31, 2021.

In Procedural Order No. 1, issued on August 12, 2016, the OEB made provision for submissions on the draft issues list and for all parties to respond to the submissions of other parties.

General

The Association of Major Power Consumers in Ontario (AMPCO) proposed removing specific reference to “nuclear assets” from issue 1.2 regarding economic and business planning assumptions to broaden the scope. As the application is structured as hydroelectric IRM and nuclear Custom IR, OEB staff submits that the revision is unnecessary.

Energy Probe has proposed revising issue 1.3:

From – Is the overall increase in nuclear payment amounts reasonable given the overall bill impact on customers?

To – Is the overall increase in nuclear payment amounts, including any rate riders and excluding rate smoothing, reasonable given the bill impact on customers?

OEB staff submits that the bill impact of rate riders is generally subsumed in the deferral and variance account issue 9.4, “Is the disposition methodology appropriate?” The usefulness of Energy Probe’s proposal to include “excluding rate smoothing” is unclear. OPG and the OEB are required to implement rate smoothing in accordance with O. Reg. 53/05. To the extent Energy Probe has concerns about the cost impact of the Darlington Refurbishment Program (DRP) during the test period, OEB staff submits that this can be explored under the rate base, operating cost and methodology for payment amount issues.

Rate Base

Energy Probe submitted that the timing for increases in rate base should be included in the issue. The application proposes nuclear rate base additions for the period 2017-2021. If Energy Probe has concerns about the timing of the proposed additions to rate

base, this can be addressed under the issue as currently worded. OEB staff submits that Energy Probe's concern related to delays on nuclear projects is also addressed to some extent by the capacity refurbishment variance account.

Capital Projects

Environmental Defence requested that an issue be added to the list asking whether OPG's nuclear expenditures and financial commitments aligned with the Government of Ontario's Long-Term Energy Plan (LTEP), if there is any doubt that this is not already subsumed in existing issues.

OEB staff submits that the LTEP is a consideration in the current proceeding, much like Canadian Nuclear Safety Commission determinations on OPG, and other external requirements. However, OEB staff notes that the decision of the previous cost of service proceeding, EB-2013-0321, states that, "The [OEB] will not opine on whether OPG's nuclear refurbishment process for Darlington aligns with the Government of Ontario's Long-Term Energy Plan. The [OEB] considers this review to be outside of its mandate."

The issue, "Is OPG's cost estimate of \$12.8 billion for the Darlington Refurbishment [Program] reasonable and appropriate?" has been proposed by Energy Probe. OEB staff does not support the addition of this issue to the issues list. Section 6(2)12(v) of O. Reg. 53/05 states: "...the Board shall accept the need for the Darlington Refurbishment Project in light of the Plan of the Ministry of Energy known as the 2013 Long-Term Energy Plan and the related policy of the Minister endorsing the need for nuclear refurbishment." The OEB therefore has no mandate to consider whether the DRP should go forward – that decision has already been made. As to the costs, OPG's current application includes several billion dollars in costs related to the DRP for the test period. The OEB will be conducting a review of these costs through rate base, operating cost and deferral and variance account issues, therefore no additional issue is required for the DRP cost estimate.

Capital Structure and Production Forecast

The addition of "given the heightened financial and economic (and technical) risks associated with nuclear refurbishment" to the capital structure and production forecast issues has been proposed by Energy Probe. OEB staff submits that the additions are unnecessary and do not change the scope of examination.

Operating Costs and Other Revenue

AMPCO proposed adding "resource optimization strategies" to the human resource related costs issue, noting that, in 2013, the Auditor General of Ontario made recommendations regarding overtime and staff schedules. OEB staff submits that

overtime has been reviewed in previous proceedings even though “resource optimization strategies” was not listed in previous approved issues lists, and therefore the addition is unnecessary.

The Consumers Council of Canada (CCC) proposed that the issue related to Pickering extended operations should be revised from “Are the test period expenditures related to extended operations for Pickering appropriate?” to “Are OPG’s proposal related to the extended operations for Pickering and the impacts on the payment amounts appropriate?” CCC submitted that all of OPG’s proposals regarding extended operations for Pickering should be considered by the OEB.

OEB staff notes that the draft issue “Are the test period expenditures related to extended operations for Pickering appropriate?” has the same structure as the issue approved in the 2011-2012 payment amounts proceeding, EB-2010-0008, for Pickering continued operations, i.e., “Are the proposed expenditures related to continued operations at Pickering B appropriate?”

The decision in the 2011-2012 payment amounts proceeding states that, “In this proceeding, the [OEB] is of the view that its role is limited to determining the following: whether the planned spending on the Pickering B Continued Operations in 2011 and 2012 is reasonable based on the business case ...” OEB staff submits that the consideration of Pickering extended operations is similar to the previous consideration of Pickering B continued operations and that the draft issue is sufficient to permit the evaluation of the cost effectiveness of Pickering extended operations.

The Independent Electricity System Operator (IESO) proposed an additional issue relating to other revenue and revisions to two corporate cost issues. OEB staff submits that the IESO proposals largely relate to the hydroelectric facilities and a payment amount application under cost of service or Custom IR. As the current application for hydroelectric payment amounts is based on an incentive rate-setting mechanism (IRM), OEB staff submits that the proposed addition and revisions are not required.

Nuclear Liabilities and Deferral and Variance Accounts

AMPCO proposes adding an issue related to methodology for recovering nuclear liabilities and both AMPCO and CCC propose that the issue related to new deferral and variance accounts could include accounts proposed by any party to the proceeding, not just OPG.

OEB staff has no concerns with these submissions and notes that the proposals are consistent with the approved issues list for the previous proceeding, EB-2013-0321.

Reporting and Record-Keeping Requirements

CCC proposes a new issue relating to reporting requirements related to the Darlington Refurbishment Program. OEB staff has no concerns with this proposal, or the OEB may find that this issue is already subsumed in issue 10.1, “Are the proposed reporting and record keeping requirements appropriate?”

Methodologies for Setting Payment Amounts

Both OEB staff and CCC proposed separate issues for “methodology” issues for the regulated hydroelectric facilities and nuclear facilities.

CCC submitted that the issue relating to smoothing of nuclear payment amounts should not be limited to the requirements of O. Reg. 53/05, and should refer to the public interest. Similarly, Energy Probe submitted that there should be reference to the interests of ratepayers. OEB staff submits that the reference to the regulation should be retained, and proposes, “Is OPG’s proposal for smoothing nuclear payment amounts consistent with O. Reg. 53/05, and reasonable given the bill impact on customers?”

Energy Probe has submitted that reference to hydroelectric total factor productivity (TFP), either as a stand-alone issue or as part of another issue is appropriate. OEB staff agrees that the review of TFP is a primary matter, however, OEB staff submits that the review of TFP is subsumed in the issue relating to establishing incentive regulation for the regulated hydroelectric facilities as proposed by OEB staff on August 31, 2016.

All of which is respectfully submitted