

November 14, 2016

VIA RESS, EMAIL AND COURIER

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

Dear Ms. Walli:

**Re: EB-2016-0152 – Ontario Power Generation Inc. 2017-2021 Payment Amounts –
Reply Submission of the Applicant re: Prioritization of the Issues List**

Pursuant to Procedural Order 1 in EB-2016-0152, OPG is responding to submissions on prioritization of the issues list from Board staff, School Energy Coalition (SEC), Energy Probe Research Foundation (Energy Probe), Vulnerable Energy Consumers Coalition (VECC), Environmental Defence, Ontario Association of Physical Plant Administrators (OAPPA), and Consumers Council of Canada (CCC). OPG's submissions should be read together with its submissions on issues prioritization filed on November 9, 2016. In particular, OPG has prioritized issues so that the limited cross examination time available can be used to explore the most significant issues. In addition, OPG's preference is that primary issues be designated for oral hearing on an exceptional basis, so as to increase the prospects for a comprehensive settlement.

Overview

Table 1 below provides a breakdown of the issues where prioritization is not in dispute. Row A lists the issues that OPG and all parties who commented agree should be designated as primary issues. Row B lists issues that OPG and all parties who commented agree should be designated as secondary issues.

Table 1

Row	Type	Issue Numbers
A	Issues that all parties agree should be primary issues	1.2,1.3, 2.1, 2.2, 3.1, 4.1, 4.2, 4.3, 4.4, 4.5, 5.1, 6.1, 6.2, 6.4, 6.5, 6.6, 6.7, 6.8, 8.2, 9.7, 11.1, 11.3, 11.4, 11.6, 12.1
B	Issues that all parties agree should be secondary issues	1.1, 6.3, 6.11, 7.1, 8.1

Since the prioritization of the issues in Table 1 is not being disputed by the parties, these issues are not discussed further by OPG in this submission. This submission addresses the remaining issues where the parties disagree over prioritization.

Prioritization of Remaining Issues

SEC, Energy Probe, VECC, Environmental Defence, OAPPA and CCC (“Intervenor Parties”) all agree with prioritization of primary issues by Board staff. The Intervenor Parties also agree with Board staff prioritization of secondary issues, with some exceptions¹.

3.2 Are OPG’s proposed costs for the long-term and short-term debt components of its capital structure appropriate?

VECC submits that the issue of cost of capital is primary since it has a material financial impact. VECC states that it is therefore premature to exclude the debt components of the costs of capital, especially in light of the fact that Board staff evidence on this issue is forthcoming. Board staff and other commenting parties agree with OPG’s proposal to prioritize this issue as secondary. OPG believes that while the consideration of the proposed capital structure and ROE should be designated as primary, the consideration of the related debt components is more mechanistic. As such, OPG reaffirms its position that this issue should be designated as secondary, which is also consistent with the OEB’s prioritization in EB-2013-0321 (see Procedural Order 10, EB-2013-0321, issue 3.2).

6.9 Is the proposed test period nuclear depreciation expense appropriate?

SEC submits that to the extent the pace of capital spending on nuclear is examined in oral hearing, the associated depreciation will also be at issue. SEC also submits that the effective useful life of new nuclear assets may need to be explored as part of this issue. OPG’s nuclear capital program is focused on ongoing investment in existing Pickering and Darlington facilities, as well as the Darlington Refurbishment Program. OPG, Board staff and the Intervenor Parties agree that issues 4.4 and 4.5 relating to in-service additions should be designated as primary issues. Any discussion relating to the effective useful life of the nuclear assets, as referred to by SEC, can be explored as part of such primary issues. Any decision of the OEB with respect to capital expenditures will result in a flow through adjustment to the proposed in-service additions and related nuclear depreciation expense, such that issue 6.9 can be designated as a secondary issue. Moreover, the difference between forecast Darlington Refurbishment Program depreciation expense reflected in the approved nuclear revenue requirement and the actual expense is subject to the Capacity Refurbishment Variance Account. OPG further notes that in EB-2013-0321, Procedural Order 10, the OEB prioritized this issue (corresponding to issue 6.11 in EB-2013-0321) as a secondary issue.

6.10 Are the amounts proposed to be included in the test period nuclear revenue requirement for income and property taxes appropriate?

No specific reasons for designation are provided by Board staff or the Intervenor Parties. OPG submits that the methodology for calculating tax implications was explored and decided on by

¹ Intervenor Parties disagree with the submission of Board staff and OPG regarding prioritize of the following issues: 3.2 (VECC), 9.3-9.4 (EP), 9.6 (SEC, CCC, EP), 10.1 (SEC, CCC), and 11.2 (SEC, CCC).

the OEB in EB-2013-0321 and previous applications. Accordingly, OPG believes that this issue should be designated as a secondary issue.

7.2 Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

OAPPA states that the Bruce Lease revenue impacts are material and that it believes this issue should be considered as a primary issue. SEC submits that the issue is complex due to the underlying accounting methodologies used, and as a result, should be designated as primary.

There have been no changes in the methods of calculating Bruce Lease costs and revenues, and the underlying accounting methodologies have been previously considered by the OEB in past decisions. Furthermore, in EB-2013-0321, Procedural Order 10, the OEB prioritized this issue (corresponding to issue 7.3 in EB-2013-0321) as a secondary issue. As such, OPG believes this issue should continue to be prioritized as secondary.

9.1 Is the nature or type of costs recorded in the deferral and variance accounts appropriate?

9.2 Are the methodologies for recording costs in the deferral and variance accounts appropriate?

9.3 Are the balances for recovery in each of the deferral and variance accounts appropriate?

9.4 Are the proposed disposition amounts appropriate?

9.5 Is the disposition methodology appropriate?

9.6 Is the proposed continuation of deferral and variance accounts appropriate?

Energy Probe submits that it is premature to designate the issues 9.1-9.5 relating to OPG's deferral accounts as secondary prior to the Technical Conference. SEC submits that a significant component of the revenue requirement for OPG flows through deferral and variance accounts, and that those material accounting entries should be tested in a public hearing. Board staff note that there were minimal interrogatories by parties under issues 9.3, 9.4, and 9.6, and that it is reasonable to address the transactions, amortization and interest for any of the deferral and variance accounts, and proposed disposition for the accounts, by written hearing.

OPG agrees with the proposal of Board staff that issues 9.3, 9.4 and 9.6 can be addressed by way of written hearing, and should be designated as secondary issues. OPG further submits that the remaining deferral and variance accounts issues have been previously considered by the OEB, and that there have been no significant changes. As such, OPG believes that issues 9.1, 9.2 and 9.5 can also be appropriately designated as secondary issues.

9.8 Should any newly proposed deferral and variance accounts be approved by the OEB?

SEC submits that parties who wish to propose new deferral and variance accounts will be able to do so in the context of a review of another issue either in oral hearing or at the Technical Conference. SEC suggests that, at that point, if any new accounts do arise, that parties should not be restricted from pursuing them. OPG agrees that parties should not be restricted from pursuing this issue; however, OPG believes that this issue can be addressed fully in writing.

10.1 Are the proposed reporting and record keeping requirements appropriate?

Board staff note that there were no interrogatories filed under this issue, and as such, the issue should be designated as a secondary issue. SEC states that while the reporting issues are

likely to come up in the context of other issues, most of which would be designated as primary issues, that it is better to keep issue 10.1 as part of the oral hearing. SEC does not provide any other rationale to necessary designate this issue as primary.

OPG agrees with Board staff, and believes that this issue can be appropriately designated as a secondary issue, consistent with the OEB's previous prioritization in EB-2013-0321.

10.2 Is the monitoring and reporting of performance proposed by OPG for the regulated hydroelectric facilities appropriate?

10.3 Is the monitoring and reporting of performance proposed by OPG for the nuclear facilities appropriate?

10.4 Is the proposed reporting for the Darlington Refurbishment Program appropriate?

Board staff and Intervenor Parties submit that issues 10.2-10.4 should be designated as primary. OPG does not oppose this proposal.

11.2 Are the adjustments OPG has made to the regulated hydroelectric payment amounts arising from EB-2013-0321 appropriate for establishing base rates for applying the hydroelectric incentive regulation mechanism?

Board staff submit that the determination of the base payment amount for applying the hydroelectric IRM is mechanistic, and agree with OPG's suggested designation of this issue as a secondary issue. Intervenor Parties, other than SEC and CCC, agree that this issue should be designated as secondary. SEC believes this issue should be addressed in oral hearing, stating that it believes this issue to be closely connected to issue 11.1.

Issue 11.1 is: "Is OPG's approach to incentive rate-setting for establishing regulated hydroelectric payment amounts appropriate." Issue 11.1 will address the form of incentive rate-setting (IR) for the hydroelectric facilities and the parameters of OPG's proposed IR formula. In its decision on the issues list on September 23, 2016, the OEB stated:

OPG noted that OEB staff referred to the tax loss adjustment that OPG applied to establish the starting point for hydroelectric IRM. OPG proposed that issue 11.2 be revised to: "Are the adjustments OPG has made to regulated hydroelectric payment amounts arising from EB-2013-0321 appropriate for establishing base rates for applying the hydroelectric incentive regulation mechanism?"

For all five years covered by the application, OPG proposes hydroelectric payment amounts determined under IRM. The OEB accepts OPG's proposed revision to issue 11.2.

OPG's proposal to designate issue 11.2 as a secondary issue is consistent with the OEB's determination to limit the scope of issue 11.2 to adjustments to base payment amounts. OPG reaffirms its position that the proposed hydroelectric base payment amounts are as determined by the OEB in EB-2013-0321, with a single adjustment to remove a one-time tax loss allocation made in the payment amounts order stage of that proceeding. As such, OPG believes this issue should be designated as a secondary issue.

11.5 Is OPG's proposed mid-term review appropriate?

OPG notes that it incorrectly referenced the “Rate Smoothing Variance Account”, instead of the “Mid-term Nuclear Production Variance Account”, under this issue in its submission on issues prioritization dated November 9, 2016.

SEC notes that this issue is intertwined with issues 11.3 and 11.4 and should therefore be designated as a primary issue. ED submits that this issue should be pursued by oral hearing because it relates to the OEB’s ability to monitor OPG’s spending relating to its nuclear projects. VECC believes that, if unresolved, the issue of the nature of the mid-term review would be of primary interest to the OEB. EP submits that the mid-term review will provide the OEB and the public with an opportunity to examine OPG’s adherence to its five-year application, and given the financial magnitude of this application, this issue should be considered as primary.

While OPG does not oppose classifying 11.5 a primary issue, it does object to the scope of the issue proposed by ED and EP. In OPG’s submission, the mid-term review must be consistent with O. Reg. 53/05. Subject to the OEB concluding that rates are no longer just and reasonable pursuant to Section 78.1 of the Act, the regulation does not entitle the OEB to revisit the nuclear revenue requirements approved in this proceeding for the 2017 to 2021 period. As proposed, the mid-term review is limited to forecast nuclear production and associated fuel costs. OPG does not agree with EP’s statement that the purpose of issue 11.5 is to examine OPG’s adherence to the term of the application, or ED’s contention that it relates to the OEB’s ability to monitor OPG’s spending related to its nuclear projects. The proposed mid-term review only applies to review of OPG’s nuclear production and fuel costs.

11.7 Is OPG’s proposed off-ramp appropriate?

ED submits that this issue should be designated as primary because it relates to the OEB’s ability to monitor OPG’s spending. SEC believes that explorations of examples of off-ramps in oral hearing may assist the OEB panel on this issue. EP submits that given the financial magnitude of the application, it believes the OEB and the public should understand the kind of off-ramps considered by OPG, and that this would be better accomplished in oral hearing. OPG’s off-ramp proposal is consistent with the mechanism set out for electricity distributors in the RRFE. The fact that OPG is a generator does not create any novel issues regarding off-ramp that require an oral hearing. OPG believes that this issue can be fully considered by way of written hearing, and should appropriately be designated as a secondary issue.

All of which is respectfully submitted.

[Original signed by]

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