



EB-2016-0152

Ontario Power Generation Inc.

**Application for payment amounts for the period from
January 1, 2017 to December 31, 2021**

**DECISION AND ORDER ON MOTION
FILED BY GREEN ENERGY COALITION**

February 15, 2017

Ontario Power Generation Inc. (OPG) filed an application with the Ontario Energy Board (OEB) on May 27, 2016 under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), 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 hydroelectric payment amount setting formula for the period January 1, 2017 to December 31, 2021.

Pursuant to Procedural Order No. 4, on December 2, 2016 the OEB received notices of motion from the School Energy Coalition (SEC)¹, Environmental Defence (ED) and the Green Energy Coalition (GEC). In this decision the OEB addresses GEC's motion.

On December 9, 2016, the OEB received submissions from OEB staff and ED in support of certain aspects of the GEC's motion. On December 13, 2016, the OEB

¹ In reply submission OPG agreed to provide the information that was requested by SEC in interrogatory L-11.1-SEC-95 and the requested information was filed on Dec 22, 2016. Therefore, no further action is required by the OEB on this matter.

received submissions from OPG opposing the motion. On December 16, 2016, the OEB held an oral hearing to hear the motions.

GEC's motion is for an order of the OEB requiring OPG to provide full and adequate responses to the following three interrogatories:

- L-3.1, Schedule 8, GEC Interrogatory No. 1
- L-4.3, Schedule 8, GEC Interrogatory No. 2
- L-1.3, Schedule 8, GEC Interrogatory No. 64

GEC Interrogatory No. 1

The interrogatory states:

Ref. C1-1-1 att.1 Concentric Report –

Concentric notes that the DRP and Pickering life extension as well as the growth in nuclear versus hydraulic assets increases OPG's risk profile which leads to a recommended increase in the equity ratio from 45 to 49%.

- a) Please confirm that any increase in capital costs due to the size and risk of the DRP will apply to the entire rate base, not just the DRP and Pickering portion.
- b) Please estimate how much of the suggested shift in equity ratio is attributable to the DRP and how much is attributable to the Pickering life extension.
- c) Please quantify the net present value in total over the life of the Darlington facilities for the increase in the cost of capital for the non-DRP portion of the rate base due to the portion of this shift in risk attributable to the DRP.
- d) Please indicate whether the value provided in answer to part c, above, has been included in the \$12.8B DRP cost estimate and if so, provide that analysis.
- e) Please quantify the net present value in total over the life of the Pickering facilities for the increase in the cost of capital for the non-Pickering portion of the rate base due to the portion of this shift in structure attributable to the Pickering life extension.
- f) Please indicate whether the value provided in answer to part e, above, has been included in the cost estimate and in the cost effectiveness studies of the Pickering life extension and provide that analysis.

Parts (a) and (b) of the interrogatory were responded to by Concentric, on behalf of OPG. In response to part (b), Concentric states:

The DRP and Pickering life extension projects are key elements of Concentric's risk assessment, but it is not possible to isolate the effects of these projects, together or individually, from the overall risk assessment of OPG. While one could calculate the increase in capital expenditures for the projects, the capital mix is just one aspect of Concentric's overall risk assessment.

In response to parts (c) through (f), OPG states that “it is not possible to isolate the effects of these projects from the overall risk assessment of OPG.”

In its notice of motion GEC submitted that Concentric's response to part (b) is evasive and inaccurate and that OPG declined to answer parts (c) through (f) on the basis of the response to part (b). GEC submitted that cost and rate impact of the projects are fundamental to a prudence determination.

ED submitted that the information requested is highly relevant and that if Concentric is unable to provide a single estimate as requested then it should exercise judgement and provide a range.

OEB staff submitted that the information requested is relevant and Concentric could provide it with the necessary caveats.

OPG submitted that a full and proper answer had been provided by Concentric. OPG submitted that Concentric has not provided an estimate of the incremental effects of the DRP and Pickering life extension on OPG's equity ratio because it is Concentric's opinion that it is not possible to isolate the effects of these projects from the overall risk assessment of OPG. OPG further submitted that the analysis underpinning the proposed change in equity ratio is based on a detailed assessment performed and by taking into consideration the business risk profile of OPG on a range of factors. OPG argued that absent such analysis the usefulness and appropriateness of the results is highly questionable. OPG also submitted that GEC's argument that the impact of any change in the cost of capital should factor into prudence of DRP costs under Section 6(2), paragraph 4(ii) of O. Reg. 53/05 is “misplaced”.

In respect to submissions of OEB staff, OPG submitted that staff's position does not recognize that the analysis requested is not incremental exercise “calculations” but rather a comprehensive assessment of the company across various risk factors. For similar reasons, OPG also rejected ED's argument.

FINDING

The OEB is satisfied with the response that has been provided by OPG. The OEB accepts Concentric's response that it is not possible to isolate the impacts of the DRP and Pickering life extension as requested by GEC and that Concentric's methodology is predicated on that basis. The OEB accepts Concentric's response that in order to provide such an analysis, Concentric would be required to make certain assumptions and provide significant caveats. The OEB is of the view that the resulting analysis would not be robust. Further the results would not be based on a detailed ground-up assessment as was done in Concentric's original analysis. The OEB notes, however, that parties are free to make arguments with respect to the appropriateness of the methodologies used by Concentric.

GEC Interrogatory No. 2

The interrogatory states:

Please provide illustrative examples for the portion of each part of the DRP budget that is avoidable if the project is cancelled or curtailed at various stages. Please break this out to indicate the portion avoidable that falls within the amounts included in the current application. Please ensure that one scenario provided indicates what financial commitments would be avoidable if the project was cancelled today and what proportion of those avoidable commitments are included in the approvals sought in this case.

In response OPG stated that it was unable to provide the illustrative examples sought by GEC, noting that it would be speculative to do so, and stressed that it had no plans of cancelling or curtailing the DRP. OPG did however provide a description of the costs that would not be avoidable, including costs already incurred. For costs incurred, OPG provided the DRP spending to August 2016 and accruals to September 2016. The matter was further discussed at the technical conference on November 14, 2016.

GEC submitted that OPG should be able to provide the information given that it has detailed contract milestones and payment schedules. GEC further submitted that the information is necessary to assess the appropriateness of OPG's contracting strategies and that the OEB should know the impact on ratepayers if off-ramps are exercised.

OEB staff submitted that although GEC's question is within the scope of this proceeding, the scope of GEC's request was not clear. OEB staff invited GEC to clarify its request at the oral hearing.

In reply submissions, OPG reiterated its position that the scenarios proposed by GEC were highly speculative, that it has not prepared any plan for off-ramping and that the information would be of little use to the OEB.

FINDING

The OEB is satisfied with the response that has been provided by OPG and will therefore not direct OPG to provide additional information on the illustrative examples that are requested in the interrogatory. The OEB recognizes the difficulty with producing the requested scenarios and is of the view that the results of such scenarios will be unlikely to provide significant assistance to the OEB as these will likely be based on numerous assumptions.

GEC Interrogatory No. 64

The interrogatory states:

Please estimate the impact on payments and customer rates in each year of the 20-year deferral and recovery period, with and without the smoothing proposal, should the government require the exercise of an off-ramp in regard to the DRP at the completion of Unit 2 refurbishment.

In response, OPG stated that it was unable to provide the requested estimate and questioned the relevance of the information. OPG further submitted the cost implications of the scenario proposed by GEC would depend on a number of factors, such as the timing of the decision and specific direction from its shareholder, the Government of Ontario. In the absence of such information, OPG submitted the results of the analysis would be speculative at best and therefore of little assistance to the OEB.

In its notice of motion GEC submitted that the Government of Ontario required OPG to include off-ramps in its contracting approach and that testing with respect to off-ramps is required to evaluate the rate smoothing proposal.

OEB staff submitted that the scope of GEC's request was not clear and that an off-ramp scenario needs to be specifically defined if OPG is to conduct the requested analysis.

In reply, OPG reiterated its position that it had not prepared any plan for off-ramping, that the scenario proposed by GEC was highly speculative and analysis would be based on assumptions that have no factual basis. OPG also maintained that the information was outside the scope of the proceeding and would be of little use to the OEB.

FINDING

The OEB is of the view that some of the information that GEC seeks is relevant to this proceeding, especially given that the experience and performance on Darlington Unit 2 refurbishment is a key factor when considering the refurbishment of the remaining

units.² For this reason the OEB is of the view that it is reasonable to assess the impact on customers if work were to be stopped after the completion of work on Unit 2. That said, the OEB agrees with OPG that the interrogatory as framed makes it difficult to provide a response. Accordingly, the OEB requires that OPG answer the following more defined question:

Assuming that the costs are consistent with the release quality estimate, but work stops at the completion of Unit 2, which is currently planned to be completed in 2020, what would the customer bill impact be both with and without smoothing using the same period for recovery as in the original analysis? For comparison, please provide the customer bill impacts if all four units were to proceed to completion as planned (both smoothed and unsmoothed).

THE ONTARIO ENERGY BOARD THEREFORE ORDERS THAT:

1. The motion for further answers in respect of GEC interrogatory no.1 and GEC interrogatory no. 2 is denied.
2. OPG shall file with the OEB, and copy all intervenors, its complete response to the OEB's question in respect of GEC interrogatory no. 64 as noted in this Decision, on or before **February 22, 2017**.

DATED at Toronto, **February 15, 2017**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

² Exh D2-2-1 Attachment 2, OPG Actions Taken/Planned in Alignment with LTEP Principles: "Unlapped" Unit 2 from subsequent units so that the focus can be on planning and construction of a single unit to ensure its success while documenting lessons learned from the first unit and applying them to work processes on subsequent units