

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 EMAIL

March 14, 2018

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
Application for an Accounting Order
OEB Staff Interrogatories
OEB File Number EB-2018-0002**

In accordance with Notice of Application and Hearing and Procedural Order No. 1, please find attached the OEB staff interrogatories in the above proceeding. This document is being forwarded to Ontario Power Generation Inc. (OPG) and intervenors in this proceeding.

OPG is reminded that its response to interrogatories is due by March 28, 2018.

Yours truly,

Original Signed By

Fiona O'Connell
Project Advisor, Major Applications
Encl.

Ontario Power Generation Inc.
Deferral Account Application (EB-2018-0002)
OEB Staff Interrogatories
March 14, 2018

1-Staff-1

Ref: December 29, 2017 Accounting Order Application, paragraph 9, 12, 15

Preamble:

OPG's Accounting Order Application (the Application), paragraph 9 states the following:

As was the case in EB-2015-0374, OPG is not able to provide the annual revenue requirement impact associated with the above noted changes at this time, primarily because final year-end information required to calculate the December 31, 2017 adjustment to the asset retirement obligation is not yet available. OPG will determine the asset retirement obligation adjustment in conjunction with other adjustments necessary to finalize OPG's 2017 annual financial statements...

OPG's Application, paragraph 12 states that the projected deferral account credit balance of \$360 million also does not incorporate the following:

The above impacts are illustrative as they do not reflect adjustments to OPG's proposed capital in-service additions and nuclear rate base values resulting from the OEB's findings in the EB-2016-0152 Decision and Order, which OPG will reflect in the draft Payment Amounts Order submission, or the anticipated year-end 2017 change to the asset retirement obligation and corresponding ARC balances, which will be finalized as part of OPG's 2017 financial year close process and reflected in the 2017 audited annual financial statements. Both of these impacts will be captured in the calculation of the actual revenue requirement impact recorded in the deferral account.

OPG's Application, paragraph 15 states the following:

OPG expects that information supporting the balance in the proposed account, as well as the timing and manner of its disposition, would be reviewed in a future OPG application. Accordingly, there is no rate impact at this time from this Application.

OEB staff notes that the balance in the proposed account, as well as the timing and manner of its disposition, would be reviewed in a future OPG application, and that there is no rate impact at this time from this Application. However, OEB staff also notes that certain information impacting the proposed deferral account was not available to be provided by OPG until its December 31, 2017 Audited Financial Statements were published and its revised draft Payment Amounts Order submission was made.

OEB staff notes that OPG's 2017 financial results, including its December 31, 2017 Audited Financial Statements, were made publicly available on March 8, 2018.

Question(s):

- a) Please provide the certain information, including the adjustment to the asset retirement obligation and other adjustments, impacting the proposed deferral account that is now available, due to the publishing of the December 31, 2017 Audited Financial Statements on March 8, 2018.
- b) Please also provide the proposed capital in-service additions and nuclear rate base values resulting from the OEB's findings in the Decision and Order¹, which OPG will reflect in its revised draft Payment Amounts Order submission that may impact the proposed deferral account.
- c) Please describe how this information in a) and b) above impacts the proposed deferral account balance at a high level, with an associated explanation.

1-Staff-2

Ref: December 29, 2017 Accounting Order Application, page 11

Preamble:

The Application, paragraph 11 states the following:

Subject to the impact of the December 31, 2017 asset retirement obligation adjustment, OPG proposes that the revenue requirement impact recorded in the proposed deferral account be based on forecast 2018 opening gross plant and accumulated depreciation and amortization amount and forecast 2018-2021

¹ EB-2016-0152

capital in-service additions included in nuclear rate base values that will be approved through the EB-2016-0152 Payment Amounts Order. Using corresponding values proposed in OPG's pre-filed evidence from the EB-2016-0152 application, OPG illustratively estimates that depreciation and amortization expense (both ARC and non-ARC) would decrease by approximately \$150M in 2018, \$150M in 2019, and \$155M in 2020, partially offset by an increase of approximately \$95M in 2021, for a net decrease of approximately \$360M over the period.

The Application, paragraph 11, footnote 8 states the following:

Given the magnitude and illustrative nature of the estimates, consequential impacts on cost of capital and income tax components of the revenue requirement have not been included, but would be captured in the actual revenue requirement impact recorded in the proposed deferral account. The non-ARC cost of capital component will be calculated using the OEB-approved capital structure and cost of capital rates that will be reflected in the EB-2016-0152 Payment Amounts Order.

Question(s):

- a) Please explain whether the balance in the deferral account is still expected to be a credit balance of \$360 million or a different balance.
- b) If the deferral account balance is expected to be a credit balance of \$360 million, please show the derivation of this balance at a high level from 2018 through 2021, with an associated explanation.
- c) If the deferral account balance is expected to be a different number other than a credit balance of \$360 million, please update the balance and show the derivation of the revised balance at a high level from 2018 through 2021, with an associated explanation.

1-Staff-3

**Ref: December 29, 2017 Accounting Order Application, paragraph 1, 8
December 28, 2017, Decision and Order, EB-2016-0152, Table 25
EB-2015-0374 decision and order, pages 4, 6, 8**

Preamble:

The Application, paragraph 1 states the following:

OPG has determined that it will change, for accounting purposes, the current end-of-life (“EOL”) date for its Pickering nuclear facilities, effective December 31, 2017, to December 31, 2022 for Units 1 and 4 and December 31, 2024 for Units 5 to 8...

The Application, paragraph 8 states the following:

The financial impact of the December 31, 2017 change in the asset retirement obligation and associated costs for the Bruce facilities, determined in accordance with US GAAP, will be reflected in the Bruce Lease Net Revenues Variance Account in accordance with the EB-2016-0152 Decision and Order and the EB-2016-0152 Payment Amounts Order and is therefore not subject to this Application.

The EB-2015-0374 decision and order, page 4, states the following:

...as certain costs associated with nuclear liabilities are shared across the nuclear fleet, the changes in end-of-life dates for units at Bruce Power affect Pickering and Darlington.

The EB-2015-0374 decision and order, page 6, states the following:

...The OEB finds that the extension of station end-of-life dates for Bruce Power, Pickering, and Darlington results a change in accounting policy applicable to these assets...

The EB-2015-0374 decision and order, page 8, states the following:

OPG shall establish the Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account, in accordance with Schedule A, effective January 1, 2016.

The December 28, 2017, Decision and Order, EB-2016-0152, Table 5 shows the following regarding station end-of-life dates:

Table 25: Nuclear Station End-of-Life

	Effective January 1, 2013	Effective December 31, 2015
Darlington	December 31, 2051	December 31, 2052
Pickering Units 1&4	December 31, 2020	December 31, 2020
Pickering Units 5-8	April 30, 2020	December 31, 2020
Bruce A Units 1-4	December 31, 2048	December 31, 2052
Bruce B Units 5-8	December 31, 2019	December 31, 2061

Source: Exh F4-1-1, page 3

OEB staff notes that OPG has not made an application for a deferral account related to changes in station end-of-life dates as at December 31, 2016. OPG only made an application as at December 31, 2015 in the EB-2015-0374 proceeding and an application as at December 31, 2017 in the current proceeding.

OEB staff is unclear of:

- the impact of OPG not requesting a deferral account related to changes in station end-of-life dates as at December 31, 2016, particularly since large credit balances are anticipated to be refunded to customers in the EB-2015-0374 and EB-2018-0002 deferral accounts.
- why the EB-2015-0374 proceeding deferral account captured the impact of changes in station end-of-life dates for Bruce Power, Pickering and Darlington, whereas the current EB-2018-0002 proceeding only involved Pickering.
- If the end-of-life dates as noted above for Darlington and Bruce are currently estimated to match the dates in Table 25 from the Decision and Order.
- if it is determined that the changes in end-of-life dates for units are applicable in this proceeding related to Bruce Power units, whether there are impacts in this Application on Pickering or any other units (e.g. Darlington) of any potential

changes of end-of-life dates for units at Bruce Power,. However, OEB staff also notes that OPG stated in paragraph 8 of its current application that “the financial impact of the December 31, 2017 change in the asset retirement obligation and associated costs for the Bruce facilities... will be reflected in the Bruce Lease Net Revenues Variance Account ... and is therefore not subject to this Application.”

Question(s):

- a) Please explain why OPG did not request a deferral account related to changes in station end-of-life dates as at December 31, 2016, particularly since large credit balances are anticipated to be refunded to customers in the EB-2015-0374 and EB-2018-0002 deferral accounts.
- b) If a deferral account is required related to changes in station end-of-life dates as at December 31, 2016, please update OPG’s evidence as required to refer to the correct information. Please clarify and quantify any associated rate impact.
- c) Please state why in the current EB-2018-0002 proceeding, changes in station end-of-life dates are anticipated only for Pickering Units, whereas in the EB-2015-0374 proceeding changes in end-of-life dates for Bruce Power, Pickering and Darlington were anticipated.
- d) Please confirm that the end-of-life dates as noted in Table 25 above for Darlington and Bruce have not changed. If there is any change estimated, please update the evidence as required.
- e) If it is determined that the changes in end-of-life dates for units are applicable in this proceeding related to Bruce Power units, different to what is described in paragraph 8 of the Application, please describe whether any units at Pickering and Darlington should be further affected, consistent with the EB-2015-0374 decision and order.
- f) Have any other changes been made to end-of-life dates for any station that have not been reflected in the proposed deferral accounts in the EB-2018-0002 proceeding? If there is any change estimated, please update the evidence as required.
- g) Has OPG made any other updates, including any updates to the end-of-life dates, with an associated impact on the revenue requirement, subsequent to

filing its Application on December 29, 2017? If there is any change estimated, please update the evidence as required.

1-Staff-4

**Ref: December 29, 2017 Accounting Order Application, page 19 & 20
EB-2015-0374 decision and order, Schedule A**

Preamble:

Regarding pages 19 & 20 of the Application, the descriptions for Entry 1 and Entry 2 are different when comparing the Application to Schedule A of the EB-2015-0374 decision and order. The tracked changes below show how the EB-2015-0374 decision and order was reflected, when compared to the Application's Accounting Order (e.g. the phrase "to record the impact of the change in nuclear liabilities..." was reflected in the EB-2015-0374 decision and order).

Entry 1: Nuclear liability revenue requirement for prescribed facilities

To record the impact of the change in ~~en~~-nuclear liabilities ~~costs~~ resulting from changes in end-of-life dates on Asset Retirement Cost ("ARC") depreciation, the associated impacts on the return on rate base and variable used fuel and waste management expenses, and the tax impact of the ~~refund to ratepayers settlement with customers~~ of the net amount.

Entry 2: Non-ARC revenue requirement impact for prescribed facilities

To record the impact of the change in nuclear station lives on non-ARC depreciation expense ~~based on December 31, 2015 fixed asset balances~~, the associated impact on ~~the return on~~ net rate base through the change in accumulated depreciation, and the tax impact of the ~~refund to ratepayers settlement with customers~~ of the net amount.

Question(s):

- a) Please explain why the journal entries in the Accounting Order submitted as part of the Application, differ from the Accounting Order approved as part of the EB-2015-0374 decision and order.
- b) Please update OPG's evidence as required to refer to address the differences in the journal entries.

1-Staff-5

Ref: December 29, 2017 Accounting Order Application, page 11

The Application, paragraph 11 states the following:

Subject to the impact of the December 31, 2017 asset retirement obligation adjustment, OPG proposes that the revenue requirement impact recorded in the proposed deferral account be based on forecast 2018 opening gross plant and accumulated depreciation and amortization amount and forecast 2018-2021 capital in-service additions included in nuclear rate base values that will be approved through the EB-2016-0152 Payment Amounts Order. Using corresponding values proposed in OPG's pre-filed evidence from the EB-2016-0152 application, OPG illustratively estimates that depreciation and amortization expense (both ARC and non-ARC) would decrease by approximately \$150M in 2018, \$150M in 2019, and \$155M in 2020, partially offset by an increase of approximately \$95M in 2021, for a net decrease of approximately \$360M over the period.

OEB staff notes that OPG has indicated that the balance in the deferral account is material, and will be a credit balance of at least \$360 million. OEB staff notes that OPG has not provided in its application the following information – “causation” and “prudence”. In the event an applicant seeks an accounting order to establish a new DVA, the following eligibility criteria must be met:²

- Causation
- Materiality
- Prudence

Question(s):

- a) Please provide the information related to “causation” and “prudence”, which are necessary for a new DVA to be established.

² Filing Requirements For Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications - Chapter 2 Cost of Service, July 20, 2017, Section 2.9.6 Establishment of New Deferral and Variance Accounts