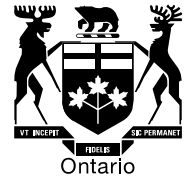


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**BY EMAIL**

April 11, 2018

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.  
Application for an Accounting Order  
OEB Staff Submission  
OEB File No. EB-2018-0002**

In accordance with Notice of Application and Hearing and Procedural Order No. 1, please find attached OEB staff's submission in the above noted proceeding. Ontario Power Generation Inc. (OPG) and all intervenors have been copied on this filing.

Yours truly,

*Original Signed By*

Fiona O'Connell  
Project Advisor, Major Applications

Encl.

**APPLICATION FOR AN ACCOUNTING ORDER**

**Ontario Power Generation Inc.**

**EB-2018-0002**

**OEB STAFF SUBMISSION**

**April 11, 2018**

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# 1 SUMMARY

This is the submission of Ontario Energy Board (OEB) staff on the application (the Application) filed by Ontario Power Generation Inc. (OPG) with the Ontario Energy Board (OEB) on December 29, 2017 under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B). The Application seeks approval to establish a deferral account to record, from January 1, 2018 until the effective date of the OEB's next payment amounts order, the revenue requirement impact of changes to nuclear liabilities and changes to depreciation and amortization expense resulting from changes to station end-of-life dates for OPG's Pickering prescribed nuclear facilities that were effective December 31, 2017.

The Application was filed in response to the OEB's 2017-2021 payment amounts proceeding Decision and Order issued on December 28, 2017 (the Decision and Order)<sup>1</sup>. The Decision and Order referred to previous payment amounts orders<sup>2</sup>. These payment amounts orders generally set out that OPG file an accounting order application if OPG proposes to change station end-of-life for depreciation and amortization purposes, changes impact the calculation of nuclear liabilities (other than as a result of an Ontario Nuclear Funds Agreement Reference Plan update) and revenue requirement, and the impact exceeds \$10 million. A similar deferral account was also approved in a prior OPG proceeding.<sup>3</sup>

OPG has proposed that a new deferral account be approved to record the revenue requirement impact effective January 1, 2018 until the effective date of the OEB's next nuclear payment amounts order. On January 31, 2018, the OEB approved the establishment of the new deferral account on an interim basis to allow OPG to begin booking entries in January 2018.

Upon review of the evidence in this proceeding, OEB staff's conclusion is that the deferral account should be approved on a final basis, effective January 1, 2018, as explained in greater detail below. OEB staff submits that OPG has satisfied the criteria to establish a new deferral account with respect to causation, materiality, and prudence.

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<sup>1</sup> EB-2016-0152

<sup>2</sup> EB-2012-0002 deferral and variance account payment amounts order issued on April 18, 2013 and EB-2013-0321 2014-2015 payment amounts order issued on December 18, 2014

<sup>3</sup> EB-2015-0374 March 10, 2016 deferral account application

However, OEB staff is of the view that the final determination of prudence will be made at the time of disposition in a future OPG proceeding. At that time, the amounts recorded in the deferral account, in addition to OPG's proposed deferral account methodology, will be tested.

## 2 ISSUE

### 2.1 Eligibility Criteria for the Establishment of a new Deferral Account

#### Background

The criteria outlined in the OEB's *Filing Requirements For Electricity Distribution Rate Applications* (the Filing Requirements) for the establishment of a new deferral or variance account are typically applied to such requests from all regulated utilities. In the event an applicant seeks an accounting order to establish a new deferral or variance account, the following eligibility criteria must be met.<sup>4</sup> OEB staff describes each of these criteria further below.

#### 1. Causation

The Filing Requirements state that:

The forecasted expense must be clearly outside of the base upon which rates were derived.

OPG indicated that the revenue requirement impact is not reflected in the current or proposed payment amounts. OPG stated that the revenue requirement impact is incremental to that established pursuant to the Decision and Order.<sup>5</sup>

OEB staff also notes that previous payment amounts orders generally set out that OPG must file an accounting order application if OPG proposes to change

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<sup>4</sup> 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

<sup>5</sup> OEB Staff Interrogatory #5

station end-of-life for depreciation and amortization purposes, changes that impact the calculation of nuclear liabilities (other than as a result of an Ontario Nuclear Funds Agreement Reference Plan update) and revenue requirement, and the impact exceeds \$10 million. OPG has met this criteria.

## 2. Materiality

The Filing Requirements state that:

The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

OPG noted that the projected balance in the deferral account as at December 31, 2021 is a credit balance of \$137.7 million.<sup>6</sup> The \$137.7 million credit balance is material, as the Application<sup>7</sup> refers to previous decisions and orders<sup>8</sup> and states that “an accounting order application is only required if the... annualized revenue requirement impact for the prescribed facilities is \$10M or greater.”

## 3. Prudence

The Filing Requirements state that:

The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

In the Application<sup>9</sup>, OPG implied that a prudence review of the deferral account would be conducted in a future OPG proceeding. Specifically, OPG stated that

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<sup>6</sup> OEB Staff Interrogatory #1, Table 1

<sup>7</sup> December 29, 2017 Accounting Order Application, page 5, paragraph 6

<sup>8</sup> EB-2012-0002 and EB-2013-0321

<sup>9</sup> December 29, 2017 Accounting Order Application, page 7, paragraph 15

information supporting the balance in the deferral account, as well as the timing and manner of its disposition, would be reviewed in a future application, and there is no rate impact at this time.

OPG is also of the view that a prudence test is not applicable to the Application for a change in Pickering's end-of-life.<sup>10</sup> OPG stated that an accounting end-of-life date change is the result of OPG achieving high confidence in units' expected operation beyond 2020. OPG also indicated that the extension of the Pickering end-of-life dates is consistent with the Decision and Order. OPG stated that the OEB accepted its 2017-2021 operating costs and nuclear generation forecast associated with the continued operation of Pickering beyond 2020, as well as OPG's evidence on the determination of Pickering's end-of-life for accounting purposes.

In its interrogatory responses<sup>11</sup>, OPG stated that the revenue requirement that will be recorded in the proposed deferral account arises from changes in depreciation and amortization expense for non-asset retirement cost (non-ARC) balances, as well as from changes in the nuclear liabilities costs. OPG further stated that the changes in nuclear liabilities costs include the impact on depreciation of existing ARC balances and the impact of the adjustment to the asset retirement obligation (ARO), and associated ARC, recorded on December 31, 2017. In OPG's view, the combined net impact on these elements will result in an overall credit to ratepayers of approximately \$138 million over the 2018 to 2021 period. However, in its interrogatory responses<sup>12</sup>, OEB staff notes that OPG did not discuss whether the prudence of the other required changes related to nuclear liabilities is applicable, and only discussed prudence related to the changes related to the accounting end-of-life date.

## Submission

OEB staff submits that the deferral account should be approved on a final basis, effective January 1, 2018. OEB staff is of the view that OPG has satisfied the criteria to

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<sup>10</sup> OEB Staff Interrogatory #5

<sup>11</sup> OEB Staff Interrogatory #1

<sup>12</sup> OEB Staff Interrogatory #5

establish a new deferral account with respect to causation, materiality, and prudence. These items are described in more detail below.

1. Causation

OEB staff agrees that the criterion of causation has been met, as the proposed revenue requirement impact to be captured in the deferral account is not embedded in the base rates approved in the Decision and Order. As well, previous payment amounts orders generally set out that OPG must file an accounting order if certain criteria are met, as OEB staff has noted above. OEB staff agrees that OPG has met this criteria.

2. Materiality

OEB staff also accepts that the criterion of materiality has been met, as the projected balance in the deferral account as at December 31, 2021 is a material credit balance of \$137.7 million. This balance is considered to be material based on the requirements from previous decisions and orders related to the threshold for filing an accounting order (\$10 million).

3. Prudence

OEB staff does not agree with OPG that the prudence criterion is not applicable. OEB staff notes that this criterion exists in order to provide the OEB with sufficient confidence that an applicant has a plan in place to demonstrate that costs being tracked and eventually brought forward for disposition are reasonable. OEB staff is satisfied that OPG did not achieve sufficient confidence in the subject units' expected operation beyond 2020 in time to be reflected in the most recent payment amounts proceeding. OEB staff notes that OPG has a plan in place for how these costs will be tracked. However, OEB staff is of the view that the final determination of prudence relating to the amounts recorded in the deferral account, in addition to OPG's proposed deferral account methodology, will be tested in a future proceeding, when OPG requests disposition of the deferral account balance.



As a result, OEB staff has not performed a detailed review of OPG's proposed deferral account methodology or account balance, particularly since OPG stated that the information supporting the balance in the deferral account, as well as the timing and manner of its disposition, would be reviewed in a future application, and is not requesting a rate impact at this time.

In the future, OEB staff submits that OPG should provide a more detailed overview of the drivers and process used to assess and quantify the changes in nuclear liabilities that do not arise from changes to useful lives.

*All of which is respectfully submitted*