

**Ontario Energy
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**Commission de l'énergie
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BY EMAIL

November 23, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4
boardsec@oeb.ca

Dear Ms. Walli:

**Re: Ontario Power Generation Inc.
Application for 2019 Hydroelectric Payment Amount Adjustment and
Clearance of Deferral and Variance Account Balances
OEB File Number EB-2018-0243**

As approved by the OEB in its Decision and Order in OPG's 2017-2021 payments amount application¹, payment amounts for OPG's prescribed hydroelectric assets are adjusted annually as part of a price cap plan. The price cap adjustment calculates the next year's payment amounts as the current approved amounts multiplied by (1 + inflation less expected productivity).

As per OPG's recent payments order², expected productivity is fixed at 0.3%. Inflation is adjusted annually as an Input Price Index (IPI), calculated as a weighted average as follows:

- For the labour price component, the annual percentage change in the Average Weekly Earnings – Ontario, all businesses except unclassified (AWE)
- For the non-labour (materials and capital assets), the annual percentage change in the Implicit Price Index for National Gross Domestic Product [Final Domestic Demand] (GDP-IPI)

The weights represent the historical percentages of labour and non-labour components of the revenue requirement for the sector. As approved in EB-2016-0152, the weights for OPG's prescribed hydroelectric assets are 12% labour and 88% non-labour.

1 EB-2016-0152

2 EB-2016-0152 Payment Amounts Order, Page 9, Para. 3

With the exception of sector-specific weights, the IPI for OPG's hydroelectric payment amounts is based on the same formula and same data as the OEB uses for calculating the IPI used for applicable electricity distribution rate adjustments (i.e., for rates adjusted by Price Cap IR, Annual Index IR and some Custom IR plans).

In its original application, OPG estimated a 2019 IPI of 1.5%³ to estimate the proposed 2019 hydroelectric payment amounts and corresponding customer bill impacts, noting that the OEB was expected to issue the 2019 IPI later in the fall.⁴ OPG also stated:

If the OEB's published index values include different annual percentage changes in either of the GDP-IPI FDD or the Ontario AWE, OPG will update this Application and the proposed 2019 HPA accordingly.⁵

The OEB issued its IPI for electricity distributors for 2019 on November 23, 2018, with a value of 1.5%.⁶ OEB staff is filing with this letter, the calculation of OPG's hydroelectric payment amounts for 2019 IPI, with a value of 1.4%. The calculation is the same as for electricity distributors, with the exception of the labour and non-labour weights. Differences from OPG's preliminary calculation shown in Chart 1⁷ are due to some data revisions by Statistics Canada to historical values for both AWE and GDP-IPI. These data revisions are routine, and reflect data corrections, the availability of more data and reclassifications, and are minor in nature.

OEB staff is filing this exhibit on the record, and suggests that OPG update its proposed hydroelectric amounts and estimated bill impacts to reflect this 2019 IPI of 1.4% prior to the commencement of the scheduled Technical Conference of November 29, 2018. This will grant parties the opportunity to address any matters on the updated evidence if necessary at the Technical Conference, and subsequently in their submissions on the hydroelectric payment amounts, in accordance with Procedural Order No. 2.⁸

Any questions relating to this filing should be directed to Georgette Vlahos at georgette.vlahos@oeb.ca or at 416-544-5169 and to Michael Millar at michael.millar@oeb.ca or at 416-440-1111.

Yours truly,

Original signed by

Georgette Vlahos
Advisor, Incentive Rate-setting & Accounting

Attachment

3 Exhibit II, Tab 1, Schedule 1, Page 3, Chart 1

4 *Ibid.*, Pages 2-3

5 *Ibid.*, Page 3

6 [2019 IPI – November 23, 2018](#)

7 Exhibit II, Tab 1, Schedule 1

8 EB-2018-0243 Procedural Order No. 2, November 16, 2018

cc: Ontario Power Generation Inc.
Charles Keizer, Torys LLP
Mel Hogg, Ontario Power Generation Inc.
All registered intervenors to EB-2018-0243

Attachment

2019 Input Price Index for OPG's Prescribed Hydroelectric Price Cap IR Plan

Inputs and Assumptions												
Year	Non-Labour GDP-IPI (FDD) - National							Labour AWE - All Employees - Ontario			Resultant Values - Annual Growth for the 2-factor IPI	
	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2016	116.5	116.4	116.9	117.5	116.825			\$ 973.75			104.9	
2017	118	118.5	118.2	119	118.425	1.4%	88%	\$ 992.55	1.9%	12%	106.4	1.4%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table: 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2007 = 100 unless otherwise noted\) - 2018 Q2, issued August 30, 2018](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, all businesses excluding unclassified, annual \(current dollars\), issued March 31, 2018, data accessed August 30, 2018](#)

Data accessed August 30, 2018