



Ontario
Energy
Board | Commission
de l'énergie
de l'Ontario

DECISION AND PAYMENT AMOUNTS ORDER

EB-2019-0209

ONTARIO POWER GENERATION INC.

**Application for 2020 Hydroelectric Payment Amount Adjustment to be
effective January 1, 2020**

By Delegation, Before: Theodore Antonopoulos

December 12, 2019

1 INTRODUCTION AND SUMMARY

Through this Decision and Payment Amounts Order, the Ontario Energy Board (OEB) approves Ontario Power Generation Inc.'s (OPG) application for approval of a payment amount for its hydroelectric generating facilities effective January 1, 2020.

OPG is the largest electricity generator in Ontario. Provincial regulation requires that the OEB set the payment amounts that OPG charges for the generation from its nuclear facilities (Pickering and Darlington) and most of its hydroelectric facilities (e.g. Sir Adam Beck I and II on the Niagara River, and RH Saunders on the St. Lawrence River). These payment amounts are included in the electricity costs which are shown as a line item on a customer's electricity bill sent from the customer's local electricity distributor.

The OEB's decision on OPG's last cost-based application approved nuclear payment amounts effective January 1, 2017 and for each of the following years through to December 31, 2021 under a Custom IR¹ framework that is tied to OPG's total cost benchmarking performance for the nuclear business. For OPG's prescribed hydroelectric assets, the OEB approved a price cap plan to adjust payment amounts for the period from January 1, 2017 to December 31, 2021.²

OPG's current application for its hydroelectric generating facilities is based on the OEB-approved Price Cap Incentive Rate-setting option (Price Cap IR), with a five-year term.³ The price cap adjustment calculates the next year's payment amounts as the current approved amounts multiplied by (1 + inflation less expected productivity). With the exception of sector-specific weights⁴, the Input Price Index (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).

¹ The Custom IR methodology sets rates for five years considering a five-year forecast of the utility's costs and sales volumes. This method is intended to be customized to fit the specific utility's circumstances, but expected productivity gains will be explicitly included in the rate adjustment mechanism. Utilities adopting this approach will need to demonstrate a high level of competence related to planning and operations.

² EB-2016-0152

³ The Price Cap IR option involves the setting of rates through a rebasing application in the first year. Mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency, are typically then approved through mechanistic applications in each of the ensuing four (adjustment) years.

⁴ As approved in EB-2016-0152, the weights for OPG's prescribed hydroelectric assets are 12% labour and 88% non-labour.

In its original application, OPG estimated a 2020 IPI of 1.8%⁵ to calculate the proposed 2020 hydroelectric payment amounts.⁶

The OEB issued an IPI of 2.0% on October 31, 2019, applicable to electricity distributors on the Price Cap IR option⁷ effective in 2020.

During the course of the proceeding, OEB staff clarified certain data points used in OPG's calculation, however there was no resulting change to the 1.8% IPI calculated by OPG. OPG's evidence calculates the 2020 hydroelectric payment amount to be \$43.15/MWh using an escalation of 1.5%, which reflects the proposed inflation factor value of 1.8% less the approved X-factor value of 0.3%.

OPG estimates that the average incremental year-over-year impact on typical residential customers' bills resulting from this adjustment is 0.03% or \$0.03 per year over the 2020-2021 period.

2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

OPG filed its application on September 4, 2019 under section 78.1 of the OEB Act for an order or orders approving a payment amount for hydroelectric generating facilities prescribed under Ontario Regulation 52/05 of the OEB Act, effective January 1, 2020.⁸

The application was supported by pre-filed written evidence. During the course of the proceeding, the applicant responded to OEB staff questions through emails and phone calls and, where required, updated and clarified the evidence.

3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses OPG's Price Cap Adjustment and provides reasons for approving OPG's proposal.

⁵ EB-2019-0209, Exhibit I1/Tab 1/Schedule 1/p. 3/Chart 1

⁶ *Ibid.*, pp. 1-3

⁷ For the 2020 Inflation Factor, see Ontario Energy Board 2020 Electricity Distribution Rate applications webpage – October 31, 2019.

⁸ Section 78.1(1) of the *Ontario Energy Board Act, 1998* establishes the OEB's authority to set payment amounts for OPG. Ontario Regulation 53/05 provides that the OEB may establish the form, methodology, assumptions and calculations used in making an order that sets payment amounts.

4 PRICE CAP ADJUSTMENT

OPG seeks to increase its hydroelectric payment amounts, effective January 1, 2020, based on a mechanistic rate adjustment using the OEB-approved ***inflation minus X-factor*** formula applicable to Price Cap IR applications.

The components of the Price Cap IR adjustment formula applicable to OPG are set out in Table 4.1, below. Inserting these components into the formula results in a 1.50% increase to OPG's rates: **$1.50\% = 1.80\% - (0.00\% + 0.30\%)$** .

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor		1.80%
X-Factor	Productivity ⁹	0.00%
	Stretch (0.00% – 0.60%) ¹⁰	0.30%

The X-factor is the sum of a base productivity factor and a stretch factor. It is a total productivity offset that ensures that payment amounts decline in real, constant-dollar terms, providing the utility with a tangible incentive to improve efficiency or else experience declining net income.

The OEB has previously approved a base productivity factor of 0%¹¹ and a stretch factor of 0.3%¹² for OPG's regulated hydroelectric facilities for the IR Term (2017-2021).

Findings

The OEB approves the adjustments proposed by OPG for charges to the output of its hydroelectric generating facilities.

⁹ Report of the OEB – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, Issued November 21, 2013, corrected December 4, 2013.

¹⁰ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 15, 2019.

¹¹ EB-2016-0152 Decision, Page 128

¹² *Ibid*, Page 129

The OEB finds that the methodology utilized by OPG in this application follows the OEB's Decision and Order in its application for payment amounts for the period from January 1, 2017 to December 31, 2021.¹³

In EB-2013-0231, the OEB established that the new regulated hydroelectric payment applies to the Chats Falls Generating Station portion owned by OPG. The station is 50/50 shared ownership between OPG and Hydro Québec. This approach to establishing the Chats Falls Generation Station payment has continued with each subsequent decision and is applied in this decision.

¹³ EB-2016-0152

THE ONTARIO ENERGY BOARD ORDERS THAT

1. Effective January 1, 2020, the payment amount for the regulated hydroelectric facilities is \$43.15/MWh.

The hydroelectric incentive mechanism will continue to operate pursuant to the OEB's approval in EB-2013-0321. As also approved by the OEB in EB-2013-0321, the hydroelectric payment amount will continue to apply to 50% of the output of OPG's Chats Falls Generating Station.

DATED at Toronto, December 12, 2019

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary