

Elson Advocacy

May 14, 2021

BY EMAIL AND RESS

Ms. Christine Long

Board Secretary, Ontario Energy Board
2300 Yonge Street, Suite 2700, P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Long:

Re: EB-2020-0290 Ontario Power Generation Payment Amounts Application

I am writing on behalf of Environmental Defence pursuant to Procedural Order #2 regarding the May 21, 2021 motions day.

Environmental Defence seeks an order that OPG disclose the methodology and/or equation(s) it uses to determine when to operate the pump at its Pump Generating Station (“PGS”).¹ This is relevant to whether OPG has complied with the OEB’s direction in EB-2010-0008 to “use the PGS to the maximum extent possible to mitigate” the cost of surplus baseload generation (“SBG”).² OPG is required to “fully justify any instance in which the PGS is not used.”³ Its economic decision making methodology is relevant to testing this justification because this methodology may or may not align with ratepayer interests in minimizing costs. This is material because OPG is seeking \$208.3 million in SBG recovery in this proceeding.⁴

These costs relate to 2018 and 2019 alone and therefore OPG’s SBG costs are arising at roughly \$100 million every year.⁵ Further exploration of this issue is warranted. Supporting documentation regarding this issue is attached.

Yours truly,



Kent Elson

cc: Parties in the above proceeding

¹ Technical Conference Transcript, May 6, 2021, p. 83, lns. 8-25.

² EB-2010-0008, Decision with Reasons, March 11, 2011, p. 147.

³ *Ibid.*

⁴ Technical Conference Transcript, May 6, 2021, p. 72, lns. 7-10.

⁵ *Ibid.* p. 100, lns. 12-16.

**Ontario Energy
Board**

**Commission de l'énergie
de l'Ontario**



EB-2010-0008

IN THE MATTER OF AN APPLICATION BY

ONTARIO POWER GENERATION INC.

**PAYMENT AMOUNTS FOR PRESCRIBED FACILITIES
FOR 2011 AND 2012**

DECISION WITH REASONS

March 10, 2011

In reply, OPG argued that it would be inappropriate to exclude SBG from the forecast as this would be inconsistent with the treatment of other factors which are included in the forecast. OPG went on to argue that if the Board is not prepared to accept OPG's original test period forecast of 1.3 TWh, it should at least accept a forecast of 0.4 TWh, which corresponds to the level in 2009 and the forecast for 2010.

OPG indicated its support for a variance account, but emphasized that it should measure variances from the best forecast of SBG. OPG further submitted that the basis for the account should be a modified version of that proposed by Board staff. OPG proposed that the reconciliation be based on:

...any IESO order or instructions (if applicable), general market conditions (e.g. total demand, total baseload, total supply) and actual production reports from the SGB-affected generation units that show deviations from production that are contemporaneous with SBG conditions.¹⁴

OPG maintained that SEC and AMPCO's proposal was unworkable because SBG is not normally managed through IESO directives. OPG also argued that CME's approach would inappropriately penalize those resources within the market that help to mitigate the condition.

Board Findings

The only issue the Board needs to address is the inclusion of SBG in the production forecast and whether a variance account is appropriate.

The evidence is clear that SBG was a significant factor in 2009 and is likely to be so again in 2011 and 2012 with the expected increase in wind generation and the expected return to service of refurbished Bruce Nuclear facilities. The Board, however, does not find that the evidence supports a forecast of 1.3 TWh. This is a significant increase over the 2009 actual and even the 2010 forecast. Added to this is the fact that 2010 is now expected to have much lower SBG. The Board accepts that this is in large part due to lower water levels, but the Board finds that there is insufficient evidence to support a forecast of 1.3 TWh for 2011 and 2012. The Board concludes that rather than setting a forecast, a better approach will be to capture the impacts of all SBG through a variance account, with no allowance built into the forecast. This approach will bring transparency to the level of SBG and will assist in assessing whether OPG has taken adequate steps to mitigate the impact of SBG (which is discussed further below).

¹⁴ Reply Argument, p. 27.

resulting addition to the incentive payment, the Board's conclusion is that it is more appropriate to re-visit the structure of the HIM in its entirety in the next proceeding rather than attempt to modify it in incremental ways in this proceeding. Instead, the Board will adjust the rate of incentive both directly and through the operation of the SBG variance account.

The Board finds that it is appropriate to reduce the level of incentive for OPG. The incentive is paid for directly by consumers; it is not the result of incremental business from other customers. This incentive is a premium paid by ratepayers to OPG so OPG will operate in a way which is of greater benefit to ratepayers. The Board has already found that OPG has not adequately substantiated its claim of consumer benefits, and therefore, until a more robust structure is established, the Board will require that 50% of the proceeds of the HIM be returned to customers and will incorporate HIM revenues into the revenue requirement as a revenue offset.

The Board will also adjust the HIM through its review of the SBG deferral account. OPG has indicated that it will use the PGS to mitigate SBG if the price spreads warrant it. However, for production that is lost due to SBG, ratepayers will compensate OPG directly for the full volume at the regulated payment level. The Board therefore expects OPG to use the PGS to the maximum extent possible to mitigate this additional direct cost on ratepayers. When assessing the circumstances which give rise to lost production due to SBG, the Board will examine the use of PGS and OPG will have to fully justify any instances in which the PGS is not used. If the Board finds that OPG could have, or should have, used the PGS to mitigate SBG, the Board will adjust the balance in the SBG account accordingly. The Board expects that this approach will have the effect of moderating the total level of incentive available to OPG, but concludes that it is a better structure to ensure direct benefits to ratepayers.

In recognition of the potential interaction between SBG and HIM, the Board will only incorporate a portion of the HIM revenue forecast into the revenue requirement: \$5 million for 2011 and \$7 million for 2012. The Board also directs OPG to establish a variance account to track all additional HIM net revenues above this forecast provision. Additional net revenues up to \$5 million in 2011 and \$7 million in 2012 will all be retained by OPG, and any additional net revenues beyond those levels will be shared equally between OPG and ratepayers.



ONTARIO ENERGY BOARD

FILE NO.: EB-2020-0290

Ontario Power Generation

VOLUME: Technical Conference

DATE: May 6, 2021

1 account at the end of 2019 is \$447 million?

2 MR. KOGAN: That is correct. As you can see on the
3 schedule, a portion of that balance relates to a period
4 that's already been approved in the prior reference
5 proceedings and hence is being amortized over '20 and '21
6 as shown.

7 MR. ELSON: Got it. And so in this application you're
8 seeking to recover \$208.3 million of surplus base load
9 generation variance?

10 MR. KOGAN: That's correct.

11 MR. ELSON: Got it. And the remainder of the 447 is
12 being recovered pursuant to previous orders. Is that how
13 you're getting from the 447 to the 208.3?

14 MR. KOGAN: Yes, that is correct.

15 MR. ELSON: Got it. Great. Okay. I would like to
16 refer you to the reasons in -- I'll just scroll to the top
17 so you can see what we're looking at -- the decision in EB-
18 2010-0008, and we are on page 147. And I just have a
19 question for you further to this highlighted portion here.
20 I'll read it to you. It says:

21 "OPG has indicated that it will use the PGS to
22 mitigate SBG if the price spreads warrant it.
23 However, for production that is lost due to SBG,
24 ratepayers will compensate OPG directly for the
25 full volume at the regulated payment level. The
26 Board therefore expects OPG to use the PGS to the
27 maximum extent possible to mitigate this
28 additional direct cost on ratepayers. When

1 MR. URUKOV: I don't believe the distinction between
2 one and more is appropriate. OPG uses the forecast
3 methodology for the prices and economic expectation of the
4 PGS to respond to market signals, and it is a methodology
5 which has a lot of inputs, if that's what you're asking.

6 MR. ELSON: Could you undertake to file that
7 methodology?

8 MR. SMITH: Can I ask you why?

9 MR. ELSON: Because I'm trying to determine whether
10 OPG is operating the PGS at the maximum level that it can
11 to reduce SBG as directed by the Board, and so I'm trying
12 to determine how it's deciding when to turn the pump on.

13 MR. SMITH: I'm not sure that I accept your reading of
14 2010-0008 or its applicability. I'm not going to give that
15 undertaking. I have to think about it, Mr. Elson.

16 MR. ELSON: What do you mean by that, Mr. Smith?

17 MR. SMITH: Well, you can take it as a refusal, but
18 for now I'm not going to give the undertaking.

19 MR. ELSON: Okay. Well, to make it a little bit more
20 clear, I am asking for OPG to file the methodology and/or
21 equations it uses to determine when to pump the -- to turn
22 on the PGS pump and operate it.

23 MR. SMITH: I understand.

24 MR. ELSON: And that's refused?

25 MR. SMITH: Yes.

26 MR. ELSON: Okay. So I will try to ask questions
27 about that without the actual material itself. Let me ask
28 you this, Mr. Urukov --

1 MR. ELSON: Does OPG operate the PGS with the goal of
2 minimizing total electricity system costs?

3 MR. SMITH: Sorry, I'm going to ask you the same
4 question. What do you mean by total electricity system
5 costs? And borne by whom?

6 MR. ELSON: The costs borne by ratepayers as opposed
7 to the costs borne by OPG. We've talked about how its
8 cost-effectiveness methodology, as I understand it,
9 assesses the costs and the revenues accruing to OPG. I'm
10 asking whether it operates the PGS based on the costs and
11 the benefits with respect to OPG, or the costs and the
12 benefits with respect to ratepayers on a total system cost
13 perspective.

14 MR. SMITH: We're not going to answer that question,
15 Mr. Elson. As the witness has indicated, and I think we've
16 indicated in our answers to your interrogatories, questions
17 related to system planning are more properly directed to
18 the IESO.

19 MR. ELSON: Does OPG operate PGS with a goal of
20 minimizing total costs for ratepayers?

21 MR. SMITH: I think the witness already answered the
22 questions surrounding the basis upon which it operates the
23 PGS.

24 MR. ELSON: Do I take that as a refusal, Mr. Smith?

25 MR. SMITH: You can take it that the question has
26 already been asked and answered.

27 MR. ELSON: Sorry, the question has not been asked and
28 answered.

1 definition be applicable.

2 MR. ELSON: Could you provide sample outputs of the
3 economic decision-making tool?

4 MR. SMITH: No, for the reason previously articulated.

5 MR. ELSON: And just to make sure I haven't confused
6 anything, could you provide some sample outputs for the
7 economic decision-making application methodology and
8 models?

9 MR. SMITH: Sorry, I wasn't trying to be cute, Mr.
10 Elson.

11 MR. ELSON: That's another refusal. Another question.
12 For the hours in which OPG is seeking SBG recovery and the
13 PGS was not running, can you provide a list of the most
14 common reasons and how many of those hours they apply to?

15 MR. URUKOV: I believe this is going back to something
16 that was previously asked, and I highlighted the challenge
17 in doing that assessment on a frequent basis.

18 But really if I may offer that economic assessment
19 that's going to be the key driver, so I don't know if
20 perhaps in light of this additional information there is
21 still a request.

22 MR. ELSON: That's helpful to know. So most often,
23 the economic factors would be the key reason why you would
24 have an SBG condition and the PGS pump would not be
25 running. Is that what you're saying, Mr. Urukov?

26 MR. URUKOV: I'll have to say no the first part. SPG
27 conditions is a market event. I'm strictly speaking to the
28 reasons why the PGS would not be operating given the way

1 we can provide something that's responsive, we'll do that.

2 MR. MILLAR: It's JT2.25.

3 **UNDERTAKING NO. JT2.25: TO ADVISE FOR HOW MANY HOURS**
4 **IS OPG SEEKING SBG RECOVERY DID IT HAVE A HYDRO**
5 **FACILITY THAT WAS CURRENTLY GENERATING AND HAD**
6 **AVAILABLE STORAGE SPACE THAT WOULD HAVE ALLOWED THAT**
7 **FACILITY TO STOP GENERATING WITHOUT SPILLING**

8 MR. ELSON: Last question. How much more or less
9 would OPG have utilized the PGS if its economic decision-
10 making tool focused on the economics to ratepayers as a
11 whole, as opposed to the economic impacts to OPG?

12 MR. SMITH: We're not going to answer that.

13 MR. ELSON: Okay, thank you. No further questions.

14 MR. MILLAR: Great. Thank you, Mr. Elson. Let's move
15 over to you, Mr. Rubenstein.

16 **EXAMINATION BY MR. RUBENSTEIN:**

17 MR. RUBENSTEIN: Thank you. Nice to see familiar
18 faces. I will be asking some questions and my colleague,
19 Mr. Shepherd, will be asking some questions of this panel.

20 I wanted to follow-up with one aspect of Mr. Elson's
21 questioning. There's a lot of discussion obviously about
22 this economic analysis tool, this decision-making tool,
23 different names for it. Can I just ask what does OPG call
24 the tool, this decision-making tool that you're using?

25 MR. URUKOV: In order to give you the most accurate
26 answer, I believe I'll take that away, Mr. Rubenstein.

27 MR. MILLAR: That's an undertaking to provide the name
28 of the tool used to assess -- what was it, Mr. Rubenstein?