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May 20, 2021 **VIA E-MAIL**

Christine E. Long
Board Secretary and Registrar
Ontario Energy Board
Toronto, ON

Dear Ms. Long:

Re: EB-2020-0290 – Ontario Power Generation (OPG) 2022-2026 Payments
Submissions with respect to interrogatory confidentiality request of OPG

OPG requests confidentiality treatment for two VECC interrogatory responses. These are L-C1-01-VECC-015 and L-F4-04-VECC-035. The interrogatories and their redacted responses are attached below.

VECC does not generally seek to review confidential material by agreeing to a Declaration and Undertaking of confidentiality. We have therefore not examined any redacted material in this proceeding.

The Board has issued severe penalties for even inadvertent disclosure of confidential documents. VECC as a non-profit organization can ill afford to be exposed to such a liability. As a matter of principle, it is VECC's view that decisions should be made to the greatest extent possible on transparent information available to all the public. Decisions which incorporate information not openly available undermine the public's confidence in the result. We acknowledge that on occasion the principle of transparency might be overridden but these should be far and few between and based on clear and present harm, as for example, when personal information is at issue.

We have reviewed the response to L-F4-04-VECC-035. The redacted information is with respect to forecasted insurance premium percentage increases. VECC is satisfied with the non-redacted explanation as to the reasons for the rising cost of insurance premiums. Therefore, we are not challenging the request for confidentiality for the attachment to this interrogatory.

The remainder of this submission is with respect to VECC interrogatory L-C1-01-VECC-015 (VECC-15)

OPG's reasons for confidential treatment (as set out a page 3 of their Revised May 11, 2021 letter) fall into three categories: (1) personal information disclosure, (2) propositions of harm due to vendor/contractor pricing or performance for regulated services; and, (3) matters which intermingle the regulated and unregulated businesses. It is this latter category that OPG relies upon with respect to

VECC-15. In our submission the reasons set out by OPG are made without any substantive evidence that the concern is anything other than theoretical. Specifically, OPG states:

> "*The response to Ex. L-C1-01-VECC-015 contains the proportion of total revenues generated from regulated assets which, if disclosed, could enable the calculation and disclosure of unregulated revenue amounts*."

Our question to OPG was to discover whether there has been or will be any material change in the proportion of regulated to unregulated business. The relevance of this inquiry is in light of the Utility's proposal to seek a change to its approved capital structure. It is also in evidence that OPG is embarking on an expansion of its unregulated business by acquiring a number of generation facilities in Canada and the United States (through affiliates Atura Power and Eagle Creek Renewable Energy). Much of the supporting evidence for the change in capital structure relies on assessments of OPG as an integrated utility because debt market analysts and other experts consider the Utility as a whole. Likewise, much of the theoretical analysis underpinning capital structure (and cost of capital) are performed with data available only on the Utility as a whole. It follows therefore that changes to the proportion of the Utility's regulated and unregulated revenues are germane to the issue of the proposed change in capital structure. It is plausible (though not necessarily our position) that OPG's proposal to increase its equity thickness is in support of its strategy to acquire unregulated assets.

Other than the simple statement above OPG offers no concrete evidence from which one can understand how a forecast of the proportion of revenue from regulated and unregulated services could harm either business. It is already in evidence that OPG is embarking on an expansion of its non-regulated business. Its subsidiary, Atura Power's acquisition of gas fired plants in Ontario is a matter of public record. The table in VECC-15 is a generalization and does not even distinguish between type of generation. OPG has not indicated how understanding general figures of the proportion of revenues from the two sides of the business could impact OPG's plans or the market for those assets. The market for generation assets is global and OPG is not even among the largest participants in that market.

Finally, with respect to transparency we would note that the matter of OPG's increased unregulated business in Ontario is a matter of general public concern. For example, the Ivey Energy Policy and Management Centre has written[1]:

> *We are also surprised that we have not heard more discussion of what OPG's increased share of the province's generation assets means for the future of Ontario's electricity market and the projected benefits of the IESO's Market Renewal initiatives. The OEB has identified the potential for the abuse of market power and its effect on the integrity of the competitive market and has imposed safeguards. A larger question, however, is how the presence of a large Crown corporation, with public interest requirements, could affect the integrity and effectiveness of competition. Can a market in which a government-owned and directed company owns 50 per cent of total capacity achieve the outcomes of a workably competitive market, which is an objective of the IESO's wholesale market and the Market Renewal initiatives? This is an issue worthy of further discussion.*

[1] https://www.ivey.uwo.ca/energycentre/blog/2020/06/ontario-s-multi-billion-dollar-asset-acquisition-that-nobody-is-talking-about/

VECC is not seeking to examine the broad market concerns raised by OPG's current business strategies (though we agree with the authors above that OPG's business activities merit the Board's attention). Our concern is narrow and related to a cost of capital proposal.

Finally, we submit the Board should apply extra scrutiny with respect to reasons given for confidentiality which rely on arguments as to the differentiation between regulated and unregulated assets. It is OPG's choice to structure itself as intermingling of those businesses. It is the Board's duty to ensure that the Utility does not use this structure to transfer risks and costs between the two.

For these reasons we submit that OPG should be ordered to provide on the public record a response to VECC-15 b).

These are our respectful submissions.

Yours truly,

M. Garner

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VECC Interrogatory #15

Interrogatory

Reference:
Exhibit C1-1-1, Attachment 1 Concentric Report, p.67

a) Please provide the proportion of total OPG electricity revenue generated by only regulated assets in each of 2017 through 2020?
b) What is the forecast proportion of total revenues that will be generated from regulated assets in each of the years 2021 through 2026?

Response

a) The total OPG electricity revenue generated by the regulated assets as a proportion of OPG's total electricity revenue is presented in the chart below.

Year	Electricity revenue – regulated assets (%)
2017	88
2018	89
2019	89
2020	84

b) The forecast proportion of total OPG revenue that will be generated from the regulated assets as a proportion of OPG's total revenue is presented in the chart below.

Year	Total revenue - regulated assets (%)
2021	[redacted]
2022	
2023	
2024	
2025	
2026	

VECC Interrogatory #35

Interrogatory

Reference:
Exhibit F4-04-01 p.4

a) Please provide any correspondence from OPG's insurers which support the over 40% increase in OPG-Wide Insurance.
b) What is the current (2021) OPG-wide insurance cost based on current premiums?
c) Please provide the same as a) and b) for Nuclear Insurance.

Response

a) OPG does not correspond with insurers. Through its discussions with OPG, OPG's insurance broker Marsh Canada Limited ("Marsh") outlined to OPG the drivers behind the increases in insurance premiums, as set out below.

Over the last two decades, the insurance market experienced favourable competitive market conditions which resulted in low premium rates and occasional negotiated decreases. However, in early 2019, the insurance market began to harden due to poor financial results over 2017 and 2018, driven by multiple major catastrophic losses and compounded by lower investment market return expectations. Through the second half of 2019 and the first half of 2020, the insurance market tightened, where capacity was further constricting and premiums were increasing aggressively due to the following factors:

- Power & Utility insurers continued to experience adverse financial results due to an increase in attritional losses and ongoing incidents of catastrophic losses such as dam failures in North and South America in 2019 and early 2020
- Property insurers experienced more than US $3.5 billion in losses in the Global Energy and Power & Utility industry in 2019 and an average of $2.8 billion per year during 2014-2018 on $2 billion annual premium
- Insurers were focused on restricting their exposures by further reducing capacity and discontinued underwriting in certain sectors or for specific exposures that continuously contributed to these losses
- Low return environment exacerbated by even lower return expectation as a result of COVID-19, which reduced interest rates and increased return volatility

The limited capacity supply has enabled insurance companies' to charge "technical rates" driven by each insurer's corporate underwriting guidelines to achieve underwriting profit and sustainable financial viability. This is in contrast to market pricing in prior years where insurers often competed in premium pricing for market share and OPG was able to capitalize on premium volume, name recognition and good risk management practices, securing the most favorable terms and price in comparison to peers.

Attachment 1 is a copy of the forecasted insurance premium percentage increases (OPG-wide and nuclear) provided by Marsh as part of the above discussions. This forecast underpins the planned insurance costs in this application for the 2021-2026 period.

The results of the 2020 insurance renewal noted at Ex. F4-4-1, p. 4, showed that the forecasted increases for OPG-wide insurance were not high enough as the market continued to deteriorate, compounded by the increased losses due to COVID-19 related claims. Additionally, during the 2020 renewals, multiple OPG-wide insurers confirmed that the company's expiring property premiums were and continue to be below their acceptable technical rate for power generation. This established that OPG is likely to continue to experience considerable rate increases in 2021 and beyond.

b) The current estimate for 2021 OPG-wide insurance cost for the nuclear facilities is approximately \$10.8M, compared to the pre-filed forecast of \$10.3M[1]. On a total OPG basis, the current estimate for 2021 is \$32.6M, compared to the pre-filed forecast of \$31.3M[2]. This follows the actual 2020 costs on a total OPG basis of \$25.3M and as attributed to the nuclear facilities of \$8.3M[3], compared to a budget of \$23.7M and \$7.6M[4], respectively.

The above figures are provided on a calendar year basis, whereas the forecasted insurance premium increases in Attachment 1 are shown on a policy year basis. With many of the larger policies having a policy year ending in mid calendar year, the actual insurance cost for the 2020 calendar year therefore does not reflect the full impact of the increased level of premiums from the 2020 renewal cycle; this will be realized in the 2021 calendar year.

c) As discussed in part (a) of this response, OPG does not correspond with insurers. Through discussions, Marsh has explained that nuclear insurers are subject to the same market pricing pressures as OPG-wide insurance; however the quantum of increases are less significant. At the same time, there is a limited number of

[1] Ex. F4-4-1, Table 3, line 2, col. (f)
[2] Ex. F4-4-1, Table 1, line 2, col. (f)
[3] Ex. L-A1-2-Staff-002, Attachment 1, Tables 30 and 31, line 2, col. (e), respectively
[4] Ex. F4-4-1, Tables 1 and 3, line 2, col. (e), respectively

insurers willing to provide coverage to nuclear perils, resulting in a relatively captive market that OPG can access.

The current estimate for 2021 nuclear insurance costs is $21.1M compared to the pre-filed forecast of $22.4M[5]. This follows the actual 2020 costs of $19.5M[6] compared to a budget of $20.9M[7].

[5] Ex. F4-4-1, Table 3, line 3, col. (f)
[6] Ex. L-A1-2-Staff-002, Attachment 1, Table 31, line 3, col. (e)
[7] Ex. F4-4-1, Table 3, line 3, col. (e)

L-F4-04-VECC-035, Attachment 1

Business Plan - Accounting Format - Actuals - 2019

This Attachment was filed as confidential information in its entirety