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

BY EMAIL

December 6, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

Re: Ontario Power Generation Inc.
2022-2026 Payment Amounts Application
Ontario Energy Board (OEB) Staff Submission on Draft Payment Amounts Order and Rate Smoothing Proposal
OEB File Number: EB-2020-0290

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the Decision and Order issued on November 15, 2021.

Yours truly,

Shuo Zhang Digitally signed by Shuo Zhang
Date: 2021.12.06 13:47:31 -05'00'

Shuo Zhang
Project Advisor, Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2020-0290

ONTARIO ENERGY BOARD

OEB Staff Submission on Draft Payment Amounts Order and Rate Smoothing Proposal

Ontario Power Generation Inc.

2022-2026 Payment Amounts Application

EB-2020-0290

December 6, 2021

Introduction

Ontario Power Generation Inc. (OPG) filed an application dated December 31, 2020, with the Ontario Energy Board (OEB) under section 78.1 of the *Ontario Energy Board Act, 1998* seeking approval for changes in payment amounts for the output of its nuclear generating facilities in each of the five years beginning January 1, 2022 and ending on December 31, 2026 (IR term). OPG also requested approval to maintain, with no change, the base payment amount it charges for the output of its regulated hydroelectric generating facilities at the payment amount in effect December 31, 2021 for the period from January 1, 2022 to December 31, 2026.

On November 15, 2021, the OEB issued its Decision and Order (Decision) on OPG's application. In accordance with the Decision, OPG filed a Draft Payment Amounts Order (DPAO) and rate smoothing proposal on November 29, 2021.

OEB staff has no concern with OPG's implementation of the OEB's decisions on the Heavy Water Storage and Drum Handling Facility (D2O Project). With respect to rate smoothing, OEB staff submits that Option C is the preferred alternative considering that it results in the lowest interest cost, the strongest credit metric result, and an acceptable variability in weighted average payment amount (WAPA). However, OEB staff acknowledges that Option B is not unreasonable given that both Option B and Option C would result in the same average annual bill impact over the IR term.

The following are OEB staff's detailed comments regarding the DPAO and rate smoothing proposal.

Comments on the Draft Payment Amounts Order

Implementation of Disallowance to the D2O Project

D2O Project-related In-service Additions

OPG requested approval of $494.7 million of the D2O Project capital cost in this application.[1]

The OEB made a permanent rate base disallowance to this project. The disallowance

[1] The actual total cost of the D2O Project over 2010-2020 is $510 million, consisting of $509.3 million in capital and $0.7 million in OM&A for removal costs incurred in 2013. Of the $509.3 million in capital cost, OPG noted that $14.6 million was approved for inclusion in rate base in 2014 and is reflected in the rate base approved in OPG's 2017-2021 Payment Amounts Proceeding. (Exhibit D2 / Tab 2 / Schedule 10 / p. 1)

comprises a $94 million reduction in rate base additions, and the removal of the carrying costs incurred from May 2017 to March 2020.

OPG has implemented a $94 million disallowance to in-service additions and $19.7 million disallowance of carrying costs for the period from May 2017 to March 2020, in the asset continuity schedule.[2] The gross plant opening balance for 2022 has been reduced from $509.3 million to $395.6 million.[3]

OPG has also adjusted depreciation costs associated with the D2O Project disallowance. The accumulated depreciation cost at the beginning of 2022 has been reduced from $45.9 million to $23.2 million. Depreciation cost for each year over the period of 2022-2026 has been reduced by $3.5 million.[4]

The rate base amount associated with the D2O Project has been reduced from $455.9 million to $366.4 million. OEB staff has no concern with OPG's implementation of the disallowance.

D2O Project-related Capacity Refurbishment Variance Account Balance

OPG requested approval to clear the December 31, 2019 Capacity Refurbishment Variance Account (CRVA) balance of $58.0 million related to the D2O Project. The balance largely relates to a proposed 2016 in-service amount of $160 million and a proposed 2019 in-service amount of $320.9 million.

In addition to the permanent disallowance to the D2O Project, the OEB denied the proposed 2016 and 2019 in-service additions and found that March 2020 is the appropriate in-service date of the approved cost for inclusion in rate base.

By removing the balance relating to 2016 and 2019 in-service additions recorded in the CRVA, OPG has reduced the recoverable amount from $58.0 million to $0.1 million.[5] The $0.1 million is associated with the recovery of $14.6 million that was approved for inclusion in rate base in OPG's 2017-2021 Payment Amounts Proceeding.[6]

OEB staff takes no issue with the revised balance in the D2O-related CRVA.

[2] Draft Payment Amount Order / Appendix A / Table 9a / Note 3.
[3] Draft Payment Amount Order / Appendix A / Table 9.
[4] Draft Payment Amount Order / Appendix A / Table 10a / Note 4.
[5] Draft Payment Amount Order / Appendix D / Table 2.
[6] Exhibit D2 / Tab 2 / Schedule 10 / p. 1.

Comments on the Rate Smoothing Proposal

The rate smoothing proposal is determined based on the proposed revenue requirement net of the stretch factor.

In addition to implementing the disallowance to the D2O Project, OPG has also updated its deemed return on equity from 8.34% to 8.66% for the 2022-2026 period using the OEB-established rate for 2022 rate applications.[7]

The proposed total revenue requirement net of stretch factor over the IR term has been updated from $16,065 million to $16,101 million.

OPG is now proposing to defer recovery of $177.3 million of nuclear revenue requirement over the period of 2022-2026, which has been reduced from a total of $208.1 million proposed in the settlement proposal. Specifically, OPG proposed to defer $66.7 million in 2022 and $110.5 million in 2023. There will be no additional deferred amounts for 2024, 2025 and 2026.

In determining its rate smoothing proposal, OPG relied on Ontario Regulation 53/05 (O. Reg. 53/05) with "a view to making more stable the year-over-year changes in the OPG weighted average payment amount over each calculation period".[8] OPG proposed a rate smoothing proposal (i.e., Option B) with an annual change to WAPA of 4.0% increase in 2022, 1.0% increase in 2023, 0.2% decrease in 2024, 0.3% increase in 2025, and 1.6% decrease in 2026.[9]

In accordance with the OEB's direction, OPG included three alternative scenarios to its proposed option (Option B):[10]

- An alternative that recovers the entire proposed nuclear revenue requirement for the 2022-2026 period absent any rate smoothing (Option D)
- An alternative that recovers less revenue requirement in 2022 compared to OPG's preferred option (Option A)
- An alternative that recovers more revenue requirement in 2022 compared to OPG's preferred option (Option C)

The OEB also directed OPG to provide a ranking of the "best" credit metrics alternative,

[7] OEB Letter 2022 Cost of Capital Update, October 28, 2021.
[8] O. Reg. 53/05, s. 6 (2), sub-para. 12 (i).
[9] Draft Payment Amount Order / Appendix H / Chart 3.
[10] *Ibid.*

from OPG's perspective. OPG uses two credit metrics to assess its financial viability: cash flow from operations pre working capital to debt ratio (CFO/Debt) and the funds from operations to debt ratio (FFO/Debt). OPG's target is to meet at least one of these two credit metrics with a 12% threshold for the CFO/Debt ratio and 13% for the FFO/Debt ratio.[11] All rate smoothing options reviewed by OPG, with the exception of Option A, meet OPG's financial viability criterion.

Option D is an illustrative example for analysis and comparison purposes only. It may not be consistent with the requirement of O. Reg. 53/05 that the OEB must approve a nuclear revenue requirement and must also determine the portion of that approved revenue requirement to defer.[12]

OEB staff does not support Option A given that it results in the highest interest costs, and it does not enable OPG to meet its financial viability criterion.

In OEB staff's view, Option C is better than Option B based on reasons discussed below.

Compared to Option B, Option C results in approximately $14 million less interest cost over the IR term, and a better credit metric result (12.3% CFO/Debt ratio compared to 12% in Option B).

With respect to variability in WAPA, Option C results in a 5% increase in 2022 compared to 4% in Option B. Although OPG would collect more nuclear revenue in 2022 under Option C, from a customer's perspective, Option C provides the same average bill impact over the IR term and over 2022-2036 as Option B, for a typical residential customer.[13] In addition, OEB staff notes that the OEB-approved year-over-year change in WAPA over the period of 2017-2021 is in the range of -3.7% to 5.5%.[14] In OEB staff's view, the year-over-year variability in WAPA changes under Option C (a range from -1.6% to 5%) shows less variability than the last IR term. Compared to Option B with a year-over-year variability in WAPA changes in the range of -1.6% to 4.0%, in OEB staff's view, Option C does not jeopardize the overall stability in WAPA over the IR term.

Regarding the post-recovery transition impact, which measures the expected nuclear payment amount between 2037 and 2036, OEB staff agrees with OPG that, in

[11] Draft Payment Amount Order / Appendix H / page 10 of 11.
[12] O. Reg. 53/05, s. 5.5 (1).
[13] Draft Payment Amount Order / Appendix H / Chart 3.
[14] EB-2016-0152, Payment Amount Order Appendices, Final Draft Payment Amount Order, Appendix I, Table 2.

consideration of inherent uncertainties of long-term forecasting, all three options (Options A, B and C) present an acceptable estimated transition impact on the expected nuclear payment amount by the end of 2036.[15]

In conclusion, OEB staff submits that Option C is the preferred alternative considering that it results in the lowest interest cost (other than Option D), the strongest credit metric results, and an acceptable variability in WAPA. However, OEB staff acknowledges that Option B is not unreasonable given that both Option B and Option C would result in the same average annual bill impact over the IR term.

~All of which is respectfully submitted~

[15] Draft Payment Amount Order / Appendix H / page 10 of 11.