

**BY RESS**

December 13, 2021

Ms. Christine Long  
Registrar  
Ontario Energy Board  
27th Floor - 2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

Dear Ms. Long:

**Re: EB-2020-0290 Ontario Power Generation Inc.  
Response to OEB Staff and Intervenor Comments on Draft Order for Payment  
Amounts for the Period 2022-2026**

Attached is OPG's response to OEB staff and intervenor comments on the November 29, 2021 draft Payment Amounts Order in EB-2020-0290.

If you have any questions regarding this submission, please contact me at [evelyn.wong@opg.com](mailto:evelyn.wong@opg.com).

Respectfully submitted,



Evelyn Wong

cc: Aimee Collier, OPG  
Crawford Smith, Lax O'Sullivan Lisus Gottlieb LLP  
Charles Keizer, Torys LLP  
Intervenors of Record

## **EB-2020-0290 Draft Payment Amounts Order**

### **Response to Comments**

#### **1.0 INTRODUCTION**

Ontario Power Generation (“OPG”) has received comments on the draft Payment Amounts Order (“PAO”) from Ontario Energy Board (“OEB”) staff, the Association of Major Power Consumers in Ontario (“AMPCO”), School Energy Coalition (“SEC”), Vulnerable Energy Consumers Coalition (“VECC”) and London Property Management Association (“LPMA”). Comments pertained to two areas: Implementation of the OEB’s findings regarding the OPG’s Heavy Water Storage and Drum Handling Facility (“D2O Storage Project”), and payment amount smoothing. OPG responds to these comments in the sections that follow.

#### **2.0 IMPLEMENTATION OF THE OEB’S FINDINGS REGARDING THE D2O STORAGE PROJECT**

OEB staff and SEC provided comments on OPG’s implementation of the OEB’s findings regarding the D2O Storage Project on both the Capacity Refurbishment Variance Account (“CRVA”) and rate base.

OEB staff stated that they have “no concern with OPG’s implementation of the disallowance” and that they take “no issue with the revised balance in the D2O-related CRVA” (OEB staff submission, p. 2). With respect to the CRVA, SEC stated that OPG’s recalculation “appears to be consistent with the [OEB’s Decision and Order]” (SEC submission, p. 3).

With respect to the disallowance to rate base, SEC disputes OPG’s approach, stating “it is clear that carrying costs have not been reduced to reflect [the \$94M of disallowed costs as of October 2014], only the disallowance of all carrying costs from 2017 to 2020” (SEC submission, p. 2). SEC submitted that “OPG should be required to file a full continuity schedule showing the capital expenditures on D2O each year, adjusted for the Board Decision, and the calculation of interest during construction each year showing the impact of the reduced carrying costs from October 2014 to 2017” (SEC submission, p. 2), and further submitted that “OPG should be required to show their calculations of the carrying costs for 2017 to 2020 on a

1 monthly basis, including identifying the monthly capital expenditure balances and interest rates  
2 used in those calculations” (SEC submission, p. 2).

3  
4 SEC also noted that “[t]he disallowance of the carrying costs on the \$94 million from 2017 to  
5 2020 will presumably be included in the \$19.7 million provided by OPG”, which OPG confirms  
6 to be the case (SEC submission, p. 2).

7  
8 SEC’s position is that OPG should apply a rate base disallowance of \$94M plus interest costs  
9 calculated on the \$94M amount (in addition to the carrying cost disallowance for the May 2017  
10 to March 2020 period). OPG submits that this approach is inconsistent with the OEB’s explicit  
11 direction on how to implement the Decision and Order. In the Decision and Order, the OEB  
12 specifically states, “For clarity, the OEB finds that the prudent in-service capital cost of the D2O  
13 Project is \$509.3 million less \$94 million and less any accrued interest from May 2017 to March  
14 2020.” (p. 45). This is how OPG has implemented the Decision and Order as seen in the draft  
15 payment amounts order (“PAO”), Appendix A, Table 9a, and is supported by OEB staff.

16  
17 For additional detail, OPG is providing a monthly continuity schedule of the D2O Storage  
18 Project’s construction work-in-progress balance and associated carrying charges totaling  
19 \$19.7M (draft PAO, Appendix A, Table 9a, line 3d, col. (e)) that cover the period from May  
20 2017 to March 2020 in Attachment 1. The \$19.7M amount represents the full amount of  
21 carrying costs calculated by, and recorded in, OPG’s financial system for this period as part of  
22 the D2O Storage Project’s total cost. OPG has not produced an exhaustive calculation of each  
23 monthly interest amount because it involves application of interest to hundreds of individual  
24 transactions that are aggregated in OPG’s financial system based on daily posting date.

25  
26 OPG respectfully submits that it has correctly applied the Decision and Order with respect to  
27 the disallowances as per the OEB’s direction and as supported by the further information in  
28 Attachment 1.

29  
30 **3.0 PAYMENT AMOUNT SMOOTHING**

31 OPG received comments on its payment amount smoothing proposal from OEB staff, AMPCO,  
32 SEC, VECC and LPMA.

1 In the draft PAO, as directed by the OEB, OPG submitted its preferred payment amount  
2 smoothing proposal (“Alternative B”) in addition to two other alternatives and an illustrative  
3 scenario assuming no payment amount smoothing (OEB Decision and Order, p. 53). OPG  
4 indicated that although both Alternative B and Alternative C enable it to meet the identified  
5 credit metrics based criteria, Alternative C would support somewhat stronger credit metrics.  
6 OPG’s preference for Alternative B was based on it being a more balanced option as between  
7 the somewhat greater year-over-year variability in the weighted average payment amount  
8 (“WAPA”) and the impact on the credit metrics (draft PAO, Appendix H, p. 10).

9  
10 In their respective submissions, OEB staff, AMPCO and LPMA recommend Alternative C as  
11 the preferred alternative, citing lower interest costs as the deciding factor (OEB staff  
12 submission, p. 5, AMPCO submission, p. 3, and LPMA submission, pp. 2-3).<sup>1,2</sup> VECC also  
13 suggests that serious consideration should be given to the “no rate smoothing” scenario.

14  
15 OPG notes that O. Reg. 53/05 requires the OEB to approve nuclear revenue requirements and  
16 a portion of such revenue requirements to defer in the Rate Smoothing Deferral Account with  
17 a view to making more stable the year-over-year changes in the OPG WAPA over the 2022-  
18 2026 period. VECC’s suggestion of not deferring any amounts in the 2022-2026 period does  
19 not meet these requirements.

20  
21 With respect to other options, as noted by several parties, OPG agrees that there are relatively  
22 small differences between Alternative B and Alternative C. In the draft PAO, OPG considered  
23 the slightly smoother WAPA profile of Alternative B as the deciding factor, while the parties  
24 making submissions have placed more weight on the lower interest costs associated with  
25 Alternative C. Based on these considerations and resulting credit metrics, OPG takes no issue  
26 with Alternative C.

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<sup>1</sup> SEC and VECC commented that they agree with LPMA’s submission.

<sup>2</sup> Alternative B is also considered “reasonable” by AMPCO (AMPCO submission, p. 3) and “not unreasonable” by OEB staff (OEB staff submission, p. 5).

**D2O Storage Project -- Continuity of Capital Expenditures and Interest During Construction, May 2017 to March 2020**

Line No.	Note	January	February	March	April	May	June	July	August	September	October	November	December
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	<b>2017:</b>												
1	Fiscal Calendar Days	35	28	28	35	28	28	35	28	28	35	28	28
2	Effective Monthly Interest Rate	5.14%	5.14%	5.14%	5.14%	5.14%	5.14%	5.14%	4.79%	4.79%	4.79%	4.79%	4.79%
3	CWIP Opening Balance	165,048,215	177,668,610	188,728,735	197,159,603	204,648,180	208,827,371	209,170,029	209,508,133	222,885,778	225,007,681	226,879,460	228,952,318
4	Capital Expenditures	3	11,497,580	10,337,467	7,797,736	6,824,288	3,332,553	342,658	338,104	13,377,645	2,121,903	1,871,779	2,072,858
5	Capitalized Interest	1, 3	1,122,815	722,658	633,132	664,289	846,638	-	-	-	-	-	-
6	In-service		-	-	-	-	-	-	-	-	-	-	-
7	CWIP Closing Balance	2	177,668,610	188,728,735	197,159,603	204,648,180	208,827,371	209,170,029	209,508,133	222,885,778	225,007,681	226,879,460	228,952,318
	<b>2018:</b>												
8	Fiscal Calendar Days	28	28	35	28	28	35	28	28	35	28	28	35
9	Effective Monthly Interest Rate	4.79%	4.43%	4.41%	4.41%	4.34%	4.32%	4.32%	4.32%	4.32%	4.31%	4.31%	4.31%
10	CWIP Opening Balance		223,359,675	224,805,777	226,081,053	231,801,189	231,538,560	234,587,528	242,691,953	249,622,314	251,249,636	260,040,260	273,863,611
11	Capital Expenditures	3	1,446,102	1,275,276	5,720,137	(1,218,251)	2,258,885	7,332,616	5,944,262	829,100	7,968,606	12,775,628	(113,638)
12	Capitalized Interest	1, 3	-	-	-	955,621	790,083	771,809	986,098	798,222	822,018	1,047,724	859,314
13	In-service		-	-	-	-	-	-	-	-	-	-	-
14	CWIP Closing Balance	2	224,805,777	226,081,053	231,801,189	231,538,560	234,587,528	242,691,953	249,622,314	251,249,636	260,040,260	273,863,611	274,609,287
	<b>2019:</b>												
15	Fiscal Calendar Days	28	28	35	28	28	35	28	28	35	28	28	35
16	Effective Monthly Interest Rate	4.27%	4.27%	4.25%	4.21%	4.21%	4.21%	4.18%	4.17%	4.02%	4.01%	4.01%	4.01%
17	CWIP Opening Balance		283,819,067	290,435,589	301,124,757	306,146,773	309,157,860	311,411,229	313,698,095	316,388,936	317,947,009	320,518,613	323,594,219
18	Capital Expenditures	3	5,474,610	9,752,930	4,066,874	1,774,108	1,246,363	1,285,888	1,413,979	549,246	1,575,906	1,858,400	767,809
19	Capitalized Interest	1, 3	1,141,912	936,237	955,142	1,236,979	1,007,006	1,000,978	1,276,861	1,008,827	995,698	1,217,206	-
20	In-service		-	-	-	-	-	-	-	-	-	-	320,862,891
21	CWIP Closing Balance	2	290,435,589	301,124,757	306,146,773	309,157,860	311,411,229	313,698,095	316,388,936	317,947,009	320,518,613	323,594,219	3,499,137
	<b>2020:</b>												
22	Fiscal Calendar Days	28	28	28									
23	Effective Monthly Interest Rate	4.00%	4.00%	3.80%									
24	CWIP Opening Balance		5,976,485	7,127,910	8,087,606								
25	Capital Expenditures		1,025,776	939,024	528,454								
26	Capitalized Interest	1	125,649	20,672	-								
27	In-service		-	-	8,377,629								
28	CWIP Closing Balance	2	7,127,910	8,087,606	238,432								

29	<b>Total Interest May 2017 - March 2020</b> (Sum of lines 5, 12, 19, 26)	19,700,058
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**Notes**

- Capitalized interest is calculated in OPG's financial system using individual transaction level data based on daily posting date, including adjustments related to project cost accruals. No carrying costs were charged on the project in certain months, primarily as a result of suspension of construction activities.
- CWIP opening balance (lines 3, 10, 17, 24) plus capital expenditures (lines 4, 11, 18, 25) plus capitalized interest (lines 5, 12, 19, 26) less amounts placed in service (lines 6, 13, 20, 27).
- Sum of capital expenditures and monthly actual interest for 2017 (lines 4 and 5), 2018 (lines 11 and 12) and 2019 (lines 18 and 19) are equal to D2O Storage Project capital expenditures as reported in Ex. D2-2-9, Table 1, line 5.