



DECISION ON DRAFT PAYMENT AMOUNTS ORDER

EB-2020-0290

ONTARIO POWER GENERATION INC.

**Application for Payment Amounts for the Period from
January 1, 2022 to December 31, 2026**

BEFORE: Allison Duff
Presiding Commissioner

Michael Janigan
Commissioner

Pankaj Sardana
Commissioner

January 12, 2022



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1 OVERVIEW

The Ontario Energy Board is deciding on a draft payment amounts order regarding an application filed by Ontario Power Generation Inc. (OPG) on December 31, 2020. The application sought approval for changes in payment amounts for the output of OPG's nuclear generating facilities in each of the five years beginning January 1, 2022 and ending on December 31, 2026. 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 on 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 on the application. In the Decision and Order, OPG was directed to file a draft payment amounts order and additional rate smoothing evidence.

The OEB has reviewed the draft payment amounts order and additional rate smoothing evidence filed by OPG, as well as the comments submitted by parties. For the reasons that follow, the OEB approves Alternative C as the rate smoothing option.

OPG's payment amounts relate to generation from its nuclear and hydroelectric facilities. The payment amounts make up part of the electricity line item on customers' bills.

2 CONTEXT AND PROCESS

OPG filed an application dated December 31, 2020, with the OEB under section 78.1 of the *Ontario Energy Board Act, 1998*. The OEB issued its Decision and Order on the application on November 15, 2021.

In its Decision and Order, the OEB provided reasons for accepting the settlement proposal filed by OPG on July 16, 2021¹ and established a process for addressing the remaining unsettled issues regarding Small Modular Reactors and the Heavy Water Storage and Drum Handling Facility (D2O Project). The OEB also established a schedule for parties to comment on the draft payment amounts order and additional rate smoothing evidence that OPG was directed to file.

Comments on the draft payment amounts order and / or rate smoothing evidence were submitted by the Association of Major Power Consumers in Ontario (AMPCO), London Property Management Association (LPMA), School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC), and OEB staff. On December 13, 2021, OPG filed its reply to comments that had been submitted by parties.

The OEB issued an Interim Order, dated December 16, 2021, making the payment amounts for the regulated hydroelectric and nuclear facilities interim, pending the OEB's final payment amounts order.

¹ The settlement proposal was an agreement between OPG and most of the intervenors in this proceeding. It covered most of the issues set out in the proceeding's Issues List, with only a limited number of partially settled and unsettled issues. The settlement proposal also included an agreement to defer the consideration of rate smoothing to the payment amounts order stage of the proceeding.

3 DECISION

3.1 D2O Project-Related Issues

3.1.1 D2O Project-Related In-Service Additions

OPG requested approval of \$494.7 million of the D2O Project capital cost in the application.² In its November 15, 2021 Decision and Order, the OEB made a permanent rate base disallowance to the D2O Project. The disallowance comprised a \$94 million reduction in rate base additions, and the removal of carrying costs incurred from May 2017 to March 2020.

Reflecting the OEB's Decision and Order, OPG 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 included in the draft payment amounts order.³ The gross plant opening balance for 2022 was also reduced from \$509.3 million to \$395.6 million.⁴

OPG adjusted depreciation costs associated with the D2O Project disallowance. The accumulated depreciation cost at the beginning of 2022 was reduced from \$45.9 million to \$23.2 million. Depreciation cost for each year over the period of 2022-2026 was also reduced by \$3.5 million.⁵

OPG reduced the rate base amount associated with the D2O Project from \$455.9 million to \$366.4 million.

OEB staff and SEC made submissions on the implementation of D2O Project-related issues.

OEB staff submitted that it had no concerns with OPG's implementation of the OEB's decisions on the D2O project.

² The actual total cost of the D2O Project over 2010-2020 was \$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 was reflected in the rate base approved in OPG's 2017-2021 Payment Amounts Proceeding. (Exhibit D2 / Tab 2 / Schedule 10 / p. 1.)

³ Draft Payment Amount Order / Appendix A / Table 9a / Note 3.

⁴ Draft Payment Amount Order / Appendix A / Table 9.

⁵ Draft Payment Amount Order / Appendix A / Table 10a / Note 4.

SEC submitted that, in addition to the carrying cost disallowance for the May 2017 to March 2020 period, OPG should make an adjustment on carrying costs for the period of 2014 to 2017 to reflect the OEB's Decision and Order that \$114 million of capital cost had been reduced to \$20 million as of October 2014. SEC made its argument based on the OEB's findings that "the \$114 million capital cost was not prudently incurred and permanently reduces the balance of allowed capital costs to \$20 million as of October 2014."⁶ SEC also noted that when determining the \$94 million disallowance in rate base, the OEB found that "In the context of the final D2O Project and the services it provides, the OEB ascribes \$20 million in value to ratepayers up to the termination of [Black & McDonald] in October 2014 as an addition to rate base."⁷

SEC estimated the impact of correcting this adjustment to be approximately \$11 million. SEC submitted that OPG should be required to file a full continuity schedule showing the capital expenditures on the D2O Project each year and provide the calculation of interest during construction each year showing the impact of the reduced carrying costs from October 2014 to 2017.⁸

In its reply submission, OPG stated that SEC's argument was inconsistent with the OEB's explicit direction on how to implement the Decision and Order. OPG referred to the OEB's statement that "For clarity, the OEB finds that the prudent in-service capital cost of the D2O Project is \$509.3 million less \$94 million and less any accrued interest from May 2017 to March 2020." As a result, OPG submitted that it had correctly applied the Decision and Order with respect to the disallowance as per the OEB's direction.⁹

With respect to the \$19.7 million disallowance of carrying costs for the period from May 2017 to March 2020, SEC submitted that OPG should be required to show its calculations of the carrying costs on a monthly basis, including the monthly capital expenditure balances and interest rates used in those calculations.¹⁰ In its reply submission, OPG provided a monthly continuity schedule of the D2O Project's construction work-in-progress balance and associated carrying charges – totaling \$19.7 million for the period from May 2017 to March 2020.¹¹

⁶ Decision and Order / November 15, 2021 / p. 35.

⁷ Decision and Order / November 15, 2021 / p. 37.

⁸ SEC Submission / pp. 1-2.

⁹ OPG Responses to Comments / p. 2.

¹⁰ SEC Submission / p. 2.

¹¹ OPG Responses to Comments / Attachment 1.

Findings

The OEB finds that the draft payment amounts order accurately reflects the Decision and Order regarding the D2O Project-related in-service additions.

3.1.2 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 primarily related 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 in its Decision and Order. Instead, the OEB determined March 2020 to be 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 reduced the recoverable amount from \$58.0 million to \$0.1 million in its draft payment amounts order.¹² The \$0.1 million is associated with the recovery of \$14.6 million that was approved for inclusion in rate base¹³ in OPG's 2017-2021 Payment Amounts Proceeding.¹⁴

No party had concerns with the revised balance recorded in the CRVA.

Findings

The OEB approves clearance of the revised \$0.1 million balance in the CRVA as of December 31, 2019 related to the D2O Project.

3.2 Payment Amount Smoothing

Ontario Regulation 53/05 (Payments under Section 78.1 of the Act) (O. Reg. 53/05) sets out processes and parameters regarding the smoothing of nuclear payment amounts

¹² Draft Payment Amount Order / Appendix D / Table 2.

¹³ EB-2020-0290, Exhibit D2 / Tab 2 / Schedule 10 / p. 1.

¹⁴ EB-2016-0152.

from January 1, 2017 until the completion of the Darlington Refurbishment Program (DRP). O. Reg. 53/05 states that the OEB must determine the portion of the revenue requirement that will be deferred for recovery “with a view to making more stable the year-over-year changes in the OPG weighted average payment amount over each calculation period.”¹⁵

O. Reg. 53/05 also requires that a Rate Smoothing Deferral Account (RSDA) be established to record the deferred amounts. Further, O. Reg. 53/05 stipulates that OPG must record interest on the RSDA balance at the OEB-approved long term debt rate, compounded annually.¹⁶ In addition, it states that the OEB shall authorize recovery of the balance on a straight-line basis over a period not to exceed ten years commencing after the completion of the DRP.¹⁷

In the Decision and Order, the OEB directed OPG to file a range of rate smoothing alternatives for consideration. In accordance with the OEB’s direction, OPG filed a chart comparing the various rate smoothing alternatives:¹⁸

- Alternative A recovers less revenue requirement in 2022 compared to OPG’s preferred option
- Alternative B is OPG’s preferred option
- Alternative C recovers more revenue requirement in 2022 compared to OPG’s preferred option
- Alternative D (which the OEB required “for analysis and comparison purposes only”) recovers the entire proposed nuclear revenue requirement for the 2022-2026 period absent any rate smoothing

¹⁵ O. Reg. 53/05, s. 6 (2), sub-para. 12 (i).

¹⁶ O. Reg. 53/05, s. 5.5 (2).

¹⁷ O. Reg. 53/05, s. 6 (2), sub-para. 12 (iv).

¹⁸ Draft Payment Amount Order / Appendix H / Chart 3.

Chart 1: Rate Smoothing Alternatives

Scenario	Smoothing Alternatives			Illustrative – No Deferrals
	A	B (OPG Proposal)	C	D
2022-2026 Change in WAPA	y1: 3.0% y2: 1.0% y3: 0.8% y4: 0.3% y5: -1.6%	y1: 4.0% y2: 1.0% y3: -0.2% y4: 0.3% y5: -1.6%	y1: 5.0% y2: 1.0% y3: -1.2% y4: 0.3% y5: -1.6%	y1: 5.1% y2: 1.9% y3: -2.5% y4: 0.3% y5: -1.6%
2027-2036 Average Change in WAPA	1.3%	1.2%	1.2%	1.2%
Peak RSDA Balance (\$B)	\$0.9	\$0.8	\$0.7	\$0.6
2022-2026 Interest on Cumulative Deferral Amounts (\$M)	\$144	\$130	\$115	\$103
2022-2026 Interest on IR Term Deferral Amounts (\$M)	\$41	\$26	\$12	\$0
2017-2026 Total Interest (\$B)	\$0.40	\$0.36	\$0.32	\$0.29
Deferral Amounts (2022-2026) (\$M)	\$271.5	\$177.3	\$83.0	None
Interest Cost / Deferred Revenue Ratio	0.5	0.5	0.6	0.6
Lowest Cash Flow from Operations pre Working Capital to Debt Ratio (2022-2026)	11.8%	12.0%	12.3%	12.3%
Lowest Funds from Operations to Debt Ratio (2022-2026)	Below 13%			
Nuclear Payment Amount Transition Impact (\$/MWh)	\$3.44	\$4.00	\$4.55	\$5.04
Average Annual Bill Impact (2022-2026) in %	0.17%	0.17%	0.17%	0.17%
Average Annual Bill Impact (2022-2026) in \$	\$0.19	\$0.19	\$0.19	\$0.19
Average Annual Bill Impact (2022-2036) in %	0.21%	0.20%	0.20%	0.19%
Average Annual Bill Impact (2022-2036) in \$	\$0.24	\$0.23	\$0.23	\$0.22

The OEB also directed OPG to provide a ranking, from OPG's perspective, of the "best" credit metrics alternative. To assess its financial viability, OPG uses two credit metrics: (i) cash flow from operations pre working capital to debt ratio (CFO/Debt); and (ii) the funds from operations to debt ratio (FFO/Debt). OPG's target is to meet at least one of

the two credit metrics with a 12% threshold for the CFO/Debt ratio and 13% for the FFO/Debt ratio.¹⁹ All rate smoothing options proposed by OPG, except for Alternative A, met OPG's financial viability criterion.

OPG preferred Alternative B with deferred recovery of \$177.3 million of nuclear revenue requirement over the period of 2022-2026. Specifically, OPG proposed to defer \$66.7 million in 2022 and \$110.5 million in 2023, with no additional deferred amounts for 2024, 2025 and 2026. OPG indicated that Alternative B represented a more balanced option that resulted in smoother year-over-year variability in weighted average payment amount (WAPA) changes.²⁰

AMPCO, LPMA (supported by SEC) and OEB staff recommended Alternative C as the preferred rate smoothing option.

In determining the preferred option, OEB staff and AMPCO relied on the same rationale: that Alternative C results in the lowest interest cost (other than Alternative D), the strongest credit metric results, and an acceptable variability in WAPA.²¹

LPMA submitted that the OEB should take into consideration the quantum of the deferred revenue requirement and the potential for higher interest costs over the 2022-2026 period. Further, LPMA stated that it viewed Alternative C as the option that could result in significant longer-term savings for ratepayers.²²

VECC suggested that Alternative D, the option with no deferral, should be given serious consideration as there is little difference on the average annual bill impact between the various alternatives.²³ OEB staff noted that Option D was an illustrative example for analysis and comparison purposes only and noted that it might not be consistent with the requirement of O. Reg. 53/05.²⁴

In response to submissions from OEB staff, AMPCO and LPMA, OPG agreed that there are relatively small differences between Alternative B and Alternative C. OPG also reiterated that Alternative B provides a slightly smoother WAPA profile, but acknowledged that Alternative C would result in lower interest costs and submitted that

¹⁹ Draft Payment Amount Order / Appendix H / p. 10.

²⁰ *Ibid.*

²¹ OEB Staff Submission / p. 5; and AMPCO Submission / p. 3.

²² LPMA Submission / pp. 2-3.

²³ VECC Submission / p. 1.

²⁴ OEB Staff Submission / p. 5.

it had no issue with Alternative C.²⁵ In response to VECC's suggestion regarding Alternative D, OPG submitted that it did not meet O. Reg. 53/05's requirement of deferring a portion of the OEB-approved nuclear revenue requirement.²⁶

Findings

The OEB approves the Alternative C rate smoothing option.

The OEB finds that Alternative C strikes the right balance between the OEB-approved current period and deferred nuclear revenue requirement over the 2022-2026 period. On a relative basis, Alternative C also yields the strongest credit metrics with an acceptable variability in WAPA.

The OEB has considered the impact on customers. Intervenors representing various customer groups preferred Alternative C, citing lower interest cost and risk compared to Alternative B. Although OPG preferred Alternative B, it had "no issue" with Alternative C. The OEB finds that Alternative C is the best rate smoothing option given the O. Reg 53/05 requirements, the guiding principles approved in the 2017-2021 Payment Amounts proceeding and the Decision and Order in this proceeding.

²⁵ OPG Responses to Comments / p. 3.

²⁶ OPG Responses to Comments / p. 3.

4 IMPLEMENTATION

OPG shall re-file the draft payment amounts order and appendices in accordance with the findings in this Decision on Draft Payment Amounts Order and include the bill impacts for a typical residential customer for the 2022- 2026 period.

In the approved settlement proposal, the parties agreed that the effective date for new payment amounts and riders will be January 1, 2022.²⁷ By letter dated December 23, 2021, OPG informed the OEB that a final payment amounts order could be issued by February 20, 2022 and avoid the need for payment amounts riders to recover any forgone revenue in 2022.

The OEB is making provision for the re-filing of the draft payment amounts order and appendices, in accordance with the findings in this decision. OPG shall file a revised draft payment amounts order and appendices by January 20, 2022. The OEB will issue its final Payment Amounts Order after its review of the re-filed draft payment amounts order.

²⁷ Settlement Proposal / p. 50.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. OPG shall file with the OEB, with a copy to intervenors, a revised draft payment amounts order and appendices that reflect the OEB's findings in this Decision on Draft Payment Amounts Order no later than **January 19, 2022**.

DATED at Toronto January 12, 2022

ONTARIO ENERGY BOARD

Original Signed By

Nancy Marconi
Acting Registrar