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

BY EMAIL

May 9, 2024

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

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Ontario Power Generation Inc. (OPG)
Application relating to Market Renewal Program and Disposition of Deferral and Variance Accounts
OEB File Number: EB-2023-0336

Please find attached OEB staff's submission on the settlement proposal in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Yunus mu

Digitally signed by Yunusmu
Date: 2024.05.09 11:55:57 -04'00'

Muhammad Yunus
Advisor, Generation and Transmission

Encl.

cc: All parties in EB-2023-0336

ONTARIO ENERGY BOARD

OEB Staff Submission on Settlement Proposal

Ontario Power Generation Inc.

Application relating to impacts from the Market Renewal Program on OPG's prescribed generating facilities and the disposition of balances in its deferral and variance accounts

EB-2023-0336

May 9, 2024

Background

Ontario Power Generation Inc. (OPG) filed an application (Application) with the Ontario Energy Board (OEB) dated December 13, 2023, under section 78.1 of the *Ontario Energy Board Act, 1998*, for an order or orders relating to impacts from the Independent Electricity System Operator's (IESO) Market Renewal Program on prescribed generating facilities, and the disposition of balances in certain deferral and variance accounts (DVAs) as of December 31, 2022.

The OEB issued its Decision on Issues List on March 4, 2024.

A Settlement Conference was convened on April 15, 2024, continuing until April 16, 2024. OPG and the following intervenors participated in the settlement conference: Association of Major Power Consumers in Ontario (AMPCO), Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), Consumers Council of Canada (CCC), Environmental Defence Canada Inc. (Environmental Defence), IESO, School Energy Coalition (SEC) and Society of United Professionals (Society) (the Parties).

OPG filed a Settlement Proposal on May 3, 2024. The IESO and the Society (on all issues) and Environmental Defence (on Issue 4) neither supported nor opposed any elements of this Settlement Proposal.

The Settlement Proposal represents a complete settlement on all issues set out in the Issues List.

OEB Staff Submission

OEB staff submits that the Settlement Proposal is in the public interest and the accompanying explanation and rationale is adequate to support the Settlement Proposal.

Reasons for OEB staff's position are provided below, according to the issues as they appear on the OEB-approved issues list.

Issue 1: Is the proposed Hydroelectric Surplus Baseload Generation Variance Account spill calculation methodology appropriate?

The Parties agreed to OPG's proposed changes to the calculation of amounts recorded in the Hydroelectric Surplus Baseload Generation Variance Account (SBGVA) as the financial impact of production forgone due to Surplus Baseload Generation (SBG) conditions.

OEB staff takes no issue with OPG's proposed changes to the SBGVA spill calculation methodology. In OEB staff's view, OPG's proposal adapts the current SBGVA calculation methodology to the new market design that will be implemented by the IESO.

OEB staff submits that OPG's proposal is consistent with the existing rate framework for OPG, in which OPG is compensated for forgone revenues that result from forgone production due to SBG. In the existing electricity market design, some of this compensation comes from the Congestion Management Settlement Credit (CMSC), some of it comes from the SBGVA. In the new market design, the CMSC will be eliminated and will not be available as a mechanism to compensate OPG for forgone production due to SBG. OPG therefore proposes to use the SBGVA as the mechanism to recover all forgone revenues that result from forgone production due to SBG.

OEB staff takes no issue with the adjustment agreed to by Parties in the Settlement Proposal, in which OPG will record a credit entry of $600,000 per month to offset debit additions to the SBGVA from the effective date of the Market Renewal Program (MRP) until the effective date of the OEB's payment amounts order for OPG's next rebasing application for the prescribed facilities, subject to the terms outlined in the Settlement Proposal.

As an example, assuming the current effective date of May 1, 2025 for the MRP as targeted by the IESO and an effective date of January 1, 2027 for the payment amounts order for OPG's next rebasing application for the prescribed facilities, the maximum reduction to the SBGVA debit balances as a result of this aspect of the settlement agreement would be $12 million.

As the Parties explain in the Settlement Proposal, they agreed to this adjustment in recognition of the inherent uncertainty in outcomes from the implementation of the MRP and its impact on the SBGVA amounts.

Issue 2: Is the proposed Hydroelectric Incentive Mechanism ("HIM") methodology and HIM adjustment for spill appropriate?

The Parties agreed to OPG's proposed HIM methodology and adjustment for spill (unintended benefit adjustment) (i.e., incorporating separate incentives for the day-ahead timeframe and real-time timeframe, settled on Locational Marginal Pricing (LMP), and to replace the monthly production averaging currently used with a daily average).

OEB staff submits that OPG's proposed changes to the HIM methodology and adjustment for spill appropriately adapt the existing HIM to the new market design that will be implemented by the IESO.

OEB staff is satisfied that the proposed changes will continue to provide OPG with an incentive to shift its hydroelectric production and that the incentive will not necessarily be weakened because of the proposed changes. For the same reasons, OEB staff also supports OPG's proposals for separate day-ahead and real-time incentives and for the use of generator LMPs in its revised HIM methodology.

OEB staff takes no issue with OPG's proposal to replace the current practice of monthly production averaging with daily averaging. OEB staff accepts that the change might better align the HIM methodology with OPG's actual hydroelectric storage capabilities and with the applicable scheduling optimization timeframes in the IESO market.

OEB staff is also satisfied that OPG's proposed changes to the HIM methodology will not result in customers paying twice for the same quantity of electricity. OEB staff accepts that a given payment that OPG receives from the proposed real-time HIM will reflect the difference between real-time output and the day-ahead schedule. That is, the real-time incentive will only address incremental changes compared to the day-ahead schedule.

OEB staff also accepts that the IESO did not identify any concerns when asked for an opinion about OPG's proposed revised HIM in relation to market efficiency, operational needs, consumer interests, any actual or likely perverse incentives brought about by the revision, and any other relevant considerations.[1]

[1] Exhibit L M-Staff-10 (b), OPG response to OEB Staff interrogatory 10 (b)

Issue 3: Is the proposed treatment of real-time make whole payments appropriate?

The Parties agreed to OPG's proposed treatment of real-time make whole payments (MWPs).

OEB staff takes no issue with OPG's proposal to retain real-time MWPs. OEB staff accepts OPG's explanation that while the LMP will reflect the economic offer and associated dispatch of a resource in the new single schedule market, MWPs will apply in infrequent circumstances when the LMP does not reflect dispatch.

OEB staff submits that OPG's proposal to retain MWPs is consistent with OPG's current rate framework, in which Congestion Management Settlement Credit (CMSC) revenues are retained by OPG rather than treated as revenue offsets. OEB staff takes no issue with OPG's explanation that CSMC payments/MWPs are not reflected in the existing payment amounts.

OEB staff accepts OPG's explanation that the OEB-approved revenue requirement and production forecast underpinning OPG's regulated hydroelectric base payment amount were last established in EB-2013-0321 and in that proceeding, the revenue requirement did not include CMSCs or a projection of incremental costs from constrained-on operations and the production forecast did not include a forecast of future forgone production due to constrained-off instruction.

OEB staff also accepts OPG's confirmation that it does not propose to book forgone generation that receives MWPs in the SBGVA. Rather, OPG states that if an unanticipated market outcome causes a situation where SBGVA eligible spill also receives an MWP, OPG would apply the MWP as a credit against the SBGVA. OEB staff agrees with OPG that such instances are likely to be limited and infrequent.

In the Settlement Proposal, OPG agreed, in its next rebasing application for the prescribed facilities, to provide written evidence with respect to any quantitative results or outcomes for the prescribed facilities following the effective date of the MRP, where available; otherwise, OPG will provide qualitative evidence on its actual experience in the new market for the prescribed facilities following the effective date of the MRP. OEB staff expects that such evidence will assist the OEB in its review of payment amounts for the prescribed facilities.

Issue 4: Are the amounts recorded in the applicable deferral and variance accounts for the regulated hydroelectric facilities and nuclear facilities appropriate?

The Parties accepted that the amounts in the deferral and variance accounts for the regulated hydroelectric facilities and nuclear facilities that are sought for disposition in the Application were appropriately recorded, pursuant to the approved scope and methodologies of these accounts.

OEB staff also accepts that the amounts sought for disposition were recorded appropriately and takes no issue with the calculations. OEB staff understands that these amounts reflect 2022 audited balances less the amounts previously approved for recovery through payment riders, as established in the previously approved Payment Amounts Order (EB-2020-0290).

Issue 5: Are the balances for recovery in each of the deferral and variance accounts for the regulated hydroelectric facilities and nuclear facilities appropriate?

The total of the deferral and variance account balances sought for recovery in the Application are a debit amount of $226.4M for the regulated hydroelectric facilities and a debit amount of $276.2M for the nuclear facilities.

While Parties agreed under Issue 4 that deferral and variance account balances sought for disposition were recorded appropriately, the Parties did not agree under Issue 5 that all of the amounts are appropriate for recovery. Instead, the Parties agreed to the deferral and variance amounts sought for disposition in the Application, subject to the following adjustments:

- A $4,743,000 reduction to the Hydroelectric Capacity Refurbishment Variance Account (CRVA) balance sought for recovery
- A $4,174,000 reduction to the Nuclear CRVA balance sought for recovery
- A $91,000 reduction to the Nuclear Development Variance Account (NDVA) balance sought for recovery
- A disposition of $12.7M to the benefit of ratepayers on the balance tracked in the Sale of Unprescribed Kipling Site Deferral Account, notwithstanding that the balance in the account was not sought for disposition in the Application.

As a result of the above adjustments, the total agreed deferral and variance account balances for recovery, together with the income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, are $215.3M for the regulated hydroelectric facilities and $265.5M for the nuclear facilities.

The settlement reductions total $21.8M, or approximately 4.3%, out of the $502.6M in deferral and variance amounts proposed for disposition in the Application.

OEB staff supports the disposition of deferral and variance amounts as requested in the Application, subject to the settlement adjustments above. Reasons for OEB staff's support are described below.

Kipling Site: The Sale of Unprescribed Kipling Site Deferral Account was previously established to track 23% of the net proceeds arising from any sale of OPG's unprescribed site located at 800 Kipling Avenue in Toronto (Kipling Site) during the 2022-2026 period. The 23% figure corresponds to the extent to which the facility was determined to be used for OPG's regulated functions. OPG sold the Kipling Site in 2022. OPG did not propose to dispose of any of the balance tracked in this account as part of the Application because its position was that the net proceeds and net gain on the sale of the property should accrue to OPG.

The $12.7M disposition agreed to in the Settlement Proposal represents 50% of the 23% of the after-tax gain recognized by OPG in 2022 associated with the sale of the Kipling Site. The Parties also agreed to the same treatment of any after-tax gain on the sale recognized by OPG during the 2023-2026 period, to be disposed of in a future application through the Sale of Unprescribed Kipling Site Deferral Account.

OEB staff submits that the $12.7M disposition agreed to in the Settlement Proposal is a reasonable compromise among parties in the circumstances.

Nuclear Capacity Refurbishment Variance Account (CRVA): The $4,174,000 reduction to the nuclear CRVA balance sought for recovery in the Application was agreed to by Parties for purposes of settlement. It includes a reduction of $3.8M representing 50% of the non-capital cost of $7.6M recorded in the account due to the retirement of the Algae Mitigation Bubble Curtain Project.

The proof-of-concept bubble curtain system was commissioned in 2021 to help reduce algae ingress in the Pickering cooling water intake systems on Lake Ontario. The bubble curtain system was completed as a capital project, but did not prove to be sufficiently effective due to degradation of in-water components. Its remaining undepreciated book value was charged as a non-capital cost in 2022.

Because the project is no longer in-service, the nuclear CRVA compares a zero actual revenue requirement impact following its retirement to a forecasted revenue requirement impact of the project reflected in EB-2020-0290, resulting in a credit entry to the CRVA in the full amount of such forecasted revenue requirement impact.

OEB staff takes no issue with the proposed $4,174,000 settlement reduction to the nuclear CRVA balance. OEB staff accepts that the reduction was agreed to by Parties for purposes of settlement and that the agreed upon settlement reduction is part of an overall settlement package agreed to by Parties.

Hydroelectric Capacity Refurbishment Variance Account (CRVA): OEB staff also takes no issue with the proposed $4,743,000 reduction to the hydroelectric CRVA balance sought for recovery in the Application. As with the proposed nuclear CRVA settlement reduction, OEB staff accepts that the Hydroelectric CRVA reduction was agreed to by Parties for purposes of settlement and as part of an agreed-upon settlement package.

For context, OPG originally sought to clear the year-end 2021 regulated hydroelectric balance of the CRVA totaling a debit of $56.5M (inclusive of interest). This amount comprised capital and non-capital additions recorded over the 2016-2021 period. The proposed change as part of the Settlement Proposal represents an 8.4 percent reduction in the hydroelectric CRVA disposition amount.

OEB staff also takes no issue with the agreement reached by Parties under Issue 5 that, as part of its next rebasing application for the prescribed hydroelectric facilities, OPG will provide certain information about compensation arising from the liquidated damages for the Manitou Falls Generating Station – Auto Sluice System Replacement project (Manitou Falls project). OPG pursued liquidated damages with respect to the Manitou Falls project and will receive compensation from the contractor. The compensation will be applied against future regulated hydroelectric work as the Manitou Falls project will have been completed. OEB staff expects that such information will assist the OEB in its review of payment amounts for the prescribed facilities.

Nuclear Development Variance Account (NDVA): OEB staff does not take issue with the $91,000 reduction proposed by Parties to the NDVA balance sought for recovery. The $91,000 represents a reduction of approximately 0.08% to the $108.4M total NDVA balance requested for disposition in the Application.

Other: In addition to the settlement reductions above, the Parties agreed that, in support of future requested clearances of the SBGVA, OPG will file information related to pumped generation storage (PGS) operation as specified in the Settlement Proposal.

The Parties also agreed that OPG will study options to reduce SBGVA amounts on a going forward basis and in light of MRP, and that OPG will file its report as part of its next rebasing application for the prescribed facilities.

OEB staff does not take issue with the Parties' agreements regarding additional information related to PGS operation and SBGVA clearance and studying of options to reduce SBGVA amounts. OEB staff expects the information and studying of options will support the OEB's review of future requests for SBGVA dispositions. It may also assist in future considerations of OPG hydroelectric operations and incentives in the context of the new market design that will be implemented in 2025. OEB staff expects that the mechanics of the SBGVA and the HIM will be reviewed again in OPG's next payment amounts application underpinned with some initial actual MRP experience.

Issue 6: Are the proposed rate riders and disposition periods for the account balances appropriate?

The Parties agreed to the following incremental payment riders on regulated hydroelectric and nuclear production result for the July 1, 2024 to December 31, 2026 period. The payment riders include the effects of the settlement adjustments agreed to in the Settlement Proposal. The payment riders reflect the recovery periods and straight-line amortization as proposed in the Application and agreed by the Parties:

Table 1: Payment Riders Agreed to by Parties in Settlement Agreement

	July 1 to December 31, 2024	January 1 to December 31, 2025	January 1 to December 31, 2026
Nuclear Payment Rider	$3.13/MWh	$3.42/MWh	$4.85/MWh
Hydroelectric Payment Rider	$2.61/MWh	$2.61/MWh	$2.61/MWh

OEB staff takes no issue with the proposed rate riders and dispositions for the account balances shown in Table 1 above. OEB staff submits that the proposed 30-month disposition period is appropriate. The conclusion in 2026 coincides with the existing base payment amounts set for 2022-2026, as determined in the previously approved payment amounts order (EB-2020-0290).

With respect to the settled amount for disposition of the Sale of Unprescribed Kipling Site Deferral Account as described under Issue 5, OEB staff takes no issue with the Parties' approach of splitting the amortization of the credit evenly between the regulated hydroelectric and nuclear payment riders.

Conclusion

For the reasons above, OEB staff submits that the Settlement Proposal represents a just and reasonable outcome for both ratepayers and OPG. The Settlement Proposal is also consistent with the OEB's statutory objectives under section 1 of the Act, in particular, the protection of consumers with respect to prices and the adequacy, reliability and quality of electricity service, and the promotion of cost effectiveness in the generation of electricity, while facilitating the maintenance of a financially viable electricity sector.

~All of which is respectfully submitted~