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

BY EMAIL

November 21, 2024

To: Ontario Power Generation Inc. (OPG)
Association of Major Power Consumers in Ontario
Canadian Manufacturers & Exporters
Consumers Council of Canada
School Energy Coalition
Vulnerable Energy Consumers Coalition

Re: Ontario Power Generation's 2022 and 2023 Actual Earnings

On October 18, 2024, the Ontario Energy Board (OEB) received a joint letter from the Association of Major Power Consumers in Ontario, Canadian Manufacturers & Exporters, Consumers Council of Canada, School Energy Coalition, and Vulnerable Energy Consumers Coalition (collectively referred to as Ratepayer Groups) requesting a regulatory review of OPG's 2022-2026 rate framework. The Ratepayer Groups stated that OPG's achieved return on equity (ROE) exceeded the OEB-approved ROE by over 300 basis points in both 2022 and 2023. They noted that "OPG's approved rate framework[1] includes an off-ramp for the situation where its actual ROE is outside the +/-300 basis point trigger established by the Renewed Regulatory Framework for determining whether a regulatory review may be initiated."

In response, OPG submitted a letter on November 1, 2024, stating that its current payment amounts remain just and reasonable for the remainder of the rate term. OPG explained that its higher returns in 2022 and 2023 are balanced by projected lower returns over 2024 to 2026 due to scheduled outages and refurbishments, particularly at the Darlington Nuclear Generating Station. OPG noted that these operational shifts contribute to variability in ROE, which OPG expects to average out within the OEB's approved range over the full five-year term. Additionally, OPG highlighted that an Earnings Sharing Mechanism (ESM) is in place to address any sustained overearnings at the end of the term. The OEB also notes that on November 14, 2024, OPG released its 2024 third quarter financial results, which show that net income attributable to the shareholder was $65 million lower than the same period last year.[2]

---

[1] EB-2020-0290
[2] OPG reports 2024 third quarter financial results

2300 Yonge Street, 27th floor, P.O. Box 2319, Toronto, ON, M4P 1E4
2300, rue Yonge, 27e étage, C.P. 2319, Toronto (Ontario) M4P 1E4

T 416-481-1967 1-888-632-6273
F 416-440-7656 **OEB.ca**

The OEB has reviewed the Ratepayer Groups' concerns and OPG's response and finds that an adjudicated regulatory review is not warranted at this time. Given the OEB-approved ESM and OPG's forecast of lower returns in future years, the OEB is satisfied that the existing rate framework remains just and reasonable.

OPG's rate framework provides for public reporting requirements and a cumulative ESM. The OEB concludes that the ESM is operating as intended and is providing sufficient protection to ratepayers. The ESM mechanism is based on the Settlement Proposal that was agreed to between the parties, filed as part of OPG's 2022 to 2026 payment amounts proceeding,[3] and subsequently approved by the OEB. The Settlement Proposal states that:

> [The] Earnings sharing mechanism [will be] based on the performance of the combined nuclear and regulated hydroelectric business on an asymmetrical basis, with a 100-basis point deadband to the OEB-approved ROE rate and 50/50 sharing above the deadband, assessed over a cumulative 5-year period from 2022-2026.[4] (emphasis added)

As part of its letter, OPG notes that the ESM is intended to account for potential earnings variability within the rate term:

> the OEB-approved earning sharing mechanism ("ESM") is in place to address higher actual earnings in the 2022-2026 period.…OPG respectfully submits that the ESM was expressly contemplated by all parties to apply to the scenario where OPG may have some years of higher earnings within its five-year rate term.[5]

The OEB will continue to monitor OPG's performance to ensure that the payment amounts remain just and reasonable over the duration of the rate term. At the end of the rate term, the parties will have the opportunity to review OPG's cumulative ROE and whether the ESM has been triggered.

Yours truly,

Nancy Marconi
Digitally signed by Nancy Marconi
Date: 2024.11.21 13:47:13 -05'00'

Nancy Marconi
Registrar

c: All parties in EB-2020-0290

[3] EB-2020-0290
[4] EB-2020-0290, Settlement Proposal, page 18 of 151
[5] OPG's November 1, 2024 letter, page 2