Ontario

LEGISLATION AND REGULATIONS COMMITTEE: MINISTRY APPROVAL FORM

LRC Tracking #: REG-XXXXX
EVista Tracking #: SUB-REG-XXXXX

Ministry of Energy

Smoothing regulated payments for OPG's power generation to reduce volatility in electricity rates during the Darlington refurbishment period

Regulation

Profile at a Glance

Priority: Consequential to Commitment
Public Interest: Low
Key Stakeholder Interest: High
New Costs/Burdens: No for Stakeholders; No for Government
New Savings/Opportunities: No for Stakeholders; No for Government

---

Proposed Items for Review

1. Amending O. Reg. 53/05 (Payments Under Section 78.1 of the Act) (Payments Regulation) made under the *Ontario Energy Board Act, 1998* (OEBA)

Approvals required prior to LRC

	Committee and date	Cabinet Date
Policy	No approval needed	No approval needed
TB/MBC	No approval needed	

Deputy Minister ______________________ Date ______________________

Minister ______________________ Date ______________________

s. 1 Proposal and Context

The Ministry proposes an amendment to the Payments Regulation to ensure that the Ontario Energy Board (OEB) further reduces the volatility in electricity rates for Ontario's ratepayers during the refurbishment of the Darlington nuclear generating station (Darlington).

The proposed amendment modifies the January 2016 amendment to the same regulation. The January 2016 amendment was specifically focused on reducing the volatility in nuclear rates during Darlington refurbishment by requiring OEB to make more stable the year-over-year changes in OPG's regulated nuclear payments during the refurbishment period. This "nuclear rate smoothing" is achieved by allowing OPG to defer recovery of a portion of its nuclear-related costs until after Darlington refurbishment is complete.

- The 2013 Long-Term Energy Plan (2013 LTEP) outlined the government's plan to refurbish nuclear units at Darlington to secure a long-term supply of cost-effective, clean and reliable baseload generation.
- On January 11, 2016, the government announced that Ontario is moving forward with nuclear refurbishment at the Darlington Generating Station, securing 3,500 megawatts of affordable, reliable and emission-free power.
- As a rate-regulated facility, the cost of refurbishing the four Darlington nuclear units would be recovered in the rates approved by the OEB in accordance with s.78.1 of the OEBA and the Payments Regulation.
- Under the typical OEB rate-setting method, the OEB would set rates for a regulated utility for a period of up to five years based on a forecast of costs, capital investments brought into service and production during that period. This approach would have led to a spike in OPG's nuclear rates.
- The rate spike would have occurred as a result of production being significantly reduced and substantial capital costs being incurred, as each nuclear unit comes out of service for refurbishment. Those capital costs would have been recovered through rate increases when each unit is put back into service and other units are taken out of service.
- On January 1, 2016, following LRC approval, the Payments Regulation was amended to reduce the volatility in electricity rates during the Darlington refurbishment period by deferring recovery of a portion of OPG's nuclear costs until after the refurbishment work has ended. The amendment also ensured orderly recovery by OPG of prudently incurred Darlington refurbishment costs.

.

The proposed amendment would continue to require OEB to adjust OPG's annual nuclear payments by allowing for deferred cost recovery, but with a view to making more stable the overall customer impact from OPG's regulated rate application (i.e., nuclear and hydroelectric generation) during the refurbishment period. This modified approach is expected to provide greater opportunity for mitigating customer impacts during the Darlington refurbishment period.

- On May 27, 2016, OPG filed a 5-year (i.e., 2017 to 2021) rate application with the OEB for its regulated nuclear and hydroelectric generation. Pursuant to aforementioned January 2016 amendment, OPG requested a smoothed nuclear rate increase of 11% per year. Combined with OPG's hydroelectric rate request, the rate application would result in an increase of about $1.05, on average, to a typical monthly customer bill over the next 5 years.
- Since then, as part of OEB's public and transparent rate-setting process, OPG, OEB staff, OEB Panel and intervenors (i.e., stakeholders participating in the rate application) have undertaken an in-depth discussion of OPG's rate request.
- The discussion raised the possibility of an alternative approach that would be based on smoothing the customer bill impact of the overall OPG payments for nuclear and hydroelectric generation (and associated rate riders[1]) - as opposed to just the nuclear payments – in order to allow for a greater reduction in volatility for ratepayers.
- On February 17, 2017, OPG wrote to the Minister of Energy proposing that the Payments Regulation be changed to better align with feedback to-date from the OEB rate-setting process. According to OPG, such an approach would result in a 40% reduction in customer bill impact relative to OPG's current rate request subject to a final decision from OEB.
- On February 21, 2017, Minister of Energy wrote to OPG concurring with OPG's proposal. The Minister noted that the proposal aligns with Province's objectives of reducing costs for electricity customers in Ontario and asked OPG to work on the proposal with Ministry of Energy staff on an expedited basis, recognizing the urgency in finding ways to provide relief for customers and the timelines for OPG's rate application.

s. 2 Approach and Intended Outcomes

The proposed amendments to O. Reg. 53/05 would adopt the following approach and have the following intended outcomes:

[1] Rate adders to recover additional OEB-approved costs (e.g., for clearing deferral and variance account balances from previous periods).

- Require OEB to determine the portion of OPG's nuclear-related costs to be deferred for recovery, with a view to making more stable the year-over-year changes in OPG's weighted average regulated rate (i.e., nuclear and hydroelectric generation, rate riders) during the refurbishment period.
- **NOTE:** No changes are being proposed to OEB's methodology or approach for determining OPG's regulated hydroelectric payments.
- Benefit ratepayers through lower and more stable electricity rates relative to OPG's current rate application, while continuing to ensure OPG recovers prudently incurred refurbishment costs in an orderly manner after the refurbishment work ends.
- Reduce average bill impacts to $0.62 per month on an annual basis over the next 5 years - a 40 percent reduction relative to OPG's current application's average bill impact of $1.05 per month (Note: OPG estimate – subject to OEB final decision).
- Does not mitigate the overall rate impact of the Darlington refurbishment, only the timing of the impact on consumers to reduce rate volatility.
- Continue to use OEB's existing discretion and regulatory processes, to determine whether OPG's refurbishment costs were prudently incurred.
- Require the OEB to use its discretion to set the amount of the annual increases in smoothed rates.

s. 3 Direction and Urgency

- The proposed amendment is consistent with the Premier's commitment to urgently take further action to mitigate the burden of rising electricity prices on Ontarians.
- Minister of Energy has directed ENERGY to enable the proposed amendment to O. Reg. 53/05 on expedited basis, taking into account:
    - Government's commitment to urgently provide additional rate relief for Ontario's electricity customers; and
    - OPG's rate application timelines, with oral hearings set to commence on February 27, 2017.

s. 4 Impact Assessment and Costs

- The amendment would be expected to lead to lower electricity rates relative to OPG's current rate application).
- Electricity customer bill impacts would depend on rates that were established by the OEB on the basis of its open and transparent rate setting process. According to OPG, the proposed amendment would result in a 40% reduction in customer bill impact relative to OPG's current rate request subject to a final decision from OEB.
- The smoothed OPG rates would be charged to all electricity ratepayers through the Global Adjustment Mechanism.
- There would be no anticipated incremental increase to costs of regulation since the OEB already rate regulates OPG's nuclear facilities.

s. 5 Implementation

- The OEB would be responsible for implementing the proposed amendment as part of its existing rate setting mandate for OPG's regulated assets.
- The rate smoothing proposal would be reflected in OPG's rate application. OPG would file a revised rate request shortly after approval of the amendment.
- OPG expects this revised rate request could be accommodated in the existing schedule for OEB hearings with no impact on the timing for OEB's final decision.
- The regulation would come into force on the day it is filed.

s. 6 Delivery and Results Tracking

- The Ministry of Energy monitors electricity system cost and customer bill impacts on an ongoing basis.
- The Ministries of Energy and Finance monitor OPG's financial performance on an ongoing basis against the Province's fiscal plan.

s.7 Stakeholder Consultations

- The proposed amendment is an outcome of in-depth discussion between OPG, OEB staff, OEB Panel and stakeholders, as part of OEB's public and transparent rate-setting process.
- The Ministry has worked with OPG in drafting the amendment.

s.8 Other Jurisdictions and Harmonization

- The length and size of OPG's investment in refurbished generation supply, and the corresponding need to reduce volatility in rates during and after the refurbishment period, is unique among regulated utilities in Canada.

s. 9 Communications

- The proposed amendment is not expected to be contentious, but anti-nuclear groups may criticize this amendment as an attempt to mask the cost of nuclear.
- The Ministry would, once approved, position the amended regulation as another step by government to reduce the burden on Ontario's electricity customers while undertaking essential electricity sector investments - in the form of lower, more stable and more predictable electricity rates during the period of the Darlington refurbishments.
- In addition, the Ministry would highlight that Ontario's nuclear fleet is our largest source of reliable, affordable round-the-clock power. Nuclear generation is greenhouse gas (GHG) emissions-free, and supporting the refurbishment of Darlington will help ensure that nuclear will be part of our clean supply mix for decades to come.
- The Ministry would work closely with OPG to develop communications materials as required for key stakeholders and media.

s. 10 Contacts and Appendices

Contacts

	Name	Phone Number
Ministry Policy/Program	Zobair Anam	416-212-2139
Ministry Legal	Dan Shear	416-325-6685

Ministry Communications		
Assistant or Deputy Minister's Office		
Cabinet Office Policy		

Appendices

Appendix A: Draft Regulation
Appendix B: Regulation Comparison Chart