BRIEFING NOTE
ONTARIO POWER GENERATION (OPG) PAYMENT AMOUNTS 2017-2021

ISSUE: On December 28, 2017, the Ontario Energy Board (OEB) released its Decision on OPG 2017-2021 payment amounts for its nuclear and regulated hydroelectric facilities.

- OPG is reviewing the Decision in detail and will calculate new rates and bill impacts consistent with the OEB's decision.
- OPG must file the draft payment amounts with the OEB by January 17, 2018.

HIGHLIGHTS

- **Effective Date:** The effective date for all payment amounts is June 1, 2017. OPG requested an effective date of January 1, 2017.
- **Operations, Maintenance and Administration (OM&A)** for nuclear reduced by $100 million per year due largely to costs benchmarking higher than competitors.
- **Darlington Capital Additions:** Approval of OPG's requested $4.8 billion of in-service amounts associated with the Unit 2 refurbishment along with $377 million of other in-service additions for Darlington Refurbishment Project (DRP) within the five-year test period (June 1, 2017 to December 31, 2021).
- **Capital Additions (non-DRP):** Reduction of $33 million in rate base additions for two projects due to anticipated productivity improvements and excessive costs.
- **Debt-to-equity ratio:** Rejected OPG's proposal of a 51% debt to 49% equity ratio. Equity level will remain at the current 45%.
- **Pickering Extension:** Approval of OPG's proposal to spend $292 million from 2017-2020 to pursue technical assessments related to extending operation of Pickering beyond 2020.
- **Nuclear production:** Approved OPG's nuclear production forecast.

PAYMENTS AND BILL IMPACT

- OPG is required to file a draft payment amounts order that reflects the OEB's findings by January 17, 2018.
- The final implementation date will be subject to the completion of the payment amount order process that includes an opportunity for intervenors to comment on OPG's draft payment amounts.
- The rate smoothing methodology will be determined as part of the payment amount order process. Note that OEB has approved the Rate Smoothing Deferral Account to record the difference between (i) the total annual nuclear revenue requirement approved by the OEB, and (ii) an smoothed amount until completion of the DRP (the deferral period)
- Ministry staff will engage with OPG on estimates for payment amounts and bill impacts.

FISCAL IMPACT

- Reductions in OPG's revenue requirement impacts the company's net income. There may be impacts to the fiscal plan as OPG's net income is consolidated as revenue to the Province. The 2017 Budget assumed net income as:

	2017/18	2018/19	2019/20
OPG Net Income[1] (Millions)	97	732	625

- The fiscal impact cannot be estimated at this time. OPG will be recalculating their revised net income projection to include the changes identified in the OEB's Decision and Order.
- The Ministry will continue to work with OPG to understand the fiscal impact of the Decision.

DECISION DETAILS

- There are several items that staff have identified that may have substantial impacts on OPG's revenue requirement.

Effective Date

- The OEB changed the effective date of all payment amounts to June 1, 2017. OPG had requested an effective date of January 1, 2017.
- OPG previously flagged a later effective date as a significant risk. OPG estimates the impact of a later effective date is a loss of ~$50 million to $60 million in net income per month.
- OEB's rationale for the later effective date was the complexity of the submission and that OPG filed significant updates after its initial submission in May 2016.
- OPG is able to recover the shortfall in payment amounts from June 1 2017 to the implementation date. The implementation date will be March 1, April 1 or May 1 2018.

Debt to Equity Ratio

- OEB rejected OPG's proposal to change its debt/equity ratio from 55:45 to 51:49
- OPG's proposed 49% equity thickness reflected a material increase in business and financial risk associated with the nuclear business making up a larger share of OPG's revenue requirement.
- The OEB rejected this argument because the MWh generated by nuclear during the test period will not increase, meaning the relative contributions of revenue from nuclear will not increase relative to hydroelectric.

[1] Provided by Ontario Financing Authority

- The OEB also rejected the increase because O.Reg 53/05 allows OPG to recover unexpected and unforeseen costs.

OM&A

- The OEB is disallowing $100 million per year. Major areas of concern were in base OM&A, excessive compensation and nuclear corporate costs.
    - Base OM&A: Reduction of $25 million per year based on historical underspending.
    - Compensation: Reduction of $30 million due to proposed direct compensation and pension costs being higher than benchmarked comparators.
    - Corporate OM&A: Reduction of $45 million per year due to a number of factors, namely proposed costs being higher than comparators.
- The OEB requires a higher productivity stretch factor (0.6% compared to OPG's proposed 0.3%) applied to base, outage, project and corporate OM&A. A stretch factor is applied to the revenue requirement as part of the rate setting process to assume a certain level of productivity.

Mid-Term Review

- The OEB denied OPG's proposal for a mid-term nuclear production review.
- The midterm application would have sought an update of the nuclear production forecast and related nuclear fuel expense for the period July 1, 2019 to December 31, 2021 and disposal of 2018 year-end deferral and variance account balances.
- The OEB denied the request because the Custom IR rate-setting process only allows for re-assessment of rates in exceptional circumstances.

NEXT STEPS

- **January 17, 2018:** OPG to file a draft payment amounts order, including a smoothing proposal that reflects the OEB's findings in its Decision.
- **January 26, 2018:** Intervenors and OEB staff to file comments on OPG's draft payment amounts order.
- **February 5, 2018:** OPG files a response to any intervenor comments on the draft payment amounts order.
- **March 1, or April 1 or May 1, 2018:** New rates implemented