Ministry of Energy

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Ontario

MC-2017-669

Mr. Gary McNamara
Chair
Essex Power Corporation
2–2199 Blackacre Drive
Oldcastle ON N0R 1L0

Dear Mr. McNamara:

Thank you for your letter of April 3, 2017, regarding Ontario's role in energy sector cost control. I appreciate hearing from you about your concerns and I value your input.

Many of your concerns relate to proceedings under the jurisdiction of the OEB. I hope that you have taken advantage of the opportunity to apply as an intervenor in these matters, where your concerns could be raised and examined by the independent, quasi-judicial panel in a fair, transparent, and public hearing process. While that is the appropriate venue to address many of your questions, I am pleased to provide more information in this letter on our government's policy to maintain a reliable system while making rates more affordable.

Ontario's Fair Hydro Plan

On March 2, 2017, our government announced the Fair Hydro Plan, which proposes new measures to lower electricity bills by 25 per cent on average for residential customers, small businesses and farms, as well as initiatives to reduce costs for industrial consumers. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment, and funding of support programs through provincial revenues.

As part of the plan, the government has committed to reducing the Rural or Remote Rate Protection charge and removing the Ontario Electricity Support Program charge from all consumer bills. Consumers of all sizes would benefit from the resulting reduction in regulatory charges.

Ontario's commitment to lowering electricity costs over the longer term for consumers includes working with the province's agencies to identify opportunities to drive efficiency and increase productivity in the electricity sector. The Ontario Energy Board (OEB) will identify opportunities for cost efficiencies through encouraging shared partnerships on services between utilities, reviewing business cases behind its regulatory requirements to reduce red tape and Local Distribution Company (LDC) costs, and exploring innovative technologies and business processes.

In addition, the Independent Electricity System Operator is leading a Market Renewal project to develop an ambitious set of initiatives to fundamentally redesign Ontario's electricity markets and ensure future energy needs are met in a reliable, flexible and cost effective manner. Market Renewal is estimated to save up to $5.2 billion over a ten-year period, starting in 2021. The project forms a key component of the Fair Hydro Plan to bring down the cost of electricity in the province. Stakeholders have been engaged in Market Renewal from the outset and will continue to provide important feedback as the program moves into the detailed design phase.

Distribution Sector Efficiencies

However, we realize that more can be done, which is why we are updating our Long Term Energy Plan. With respect to the LDC sector, we are committed to working with the OEB to identify further opportunities to drive efficiency and productivity improvements within the sector as part of the Fair Hydro Plan. Some of the opportunities for further cost reduction may involve encouraging shared partnerships on services between utilities, and examining the efficacy of regulatory requirements.

Following recommendations from the Premier's Advisory Council on Government Assets, the province broadened the ownership of Hydro One to create lasting benefits and ongoing public protections. The province's relationship with Hydro One, now publicly traded, is outlined in a governance agreement and includes the province's commitment to act as an investor and not as a manager. Hydro One's rates continue to be set by the OEB, an independent regulator with a mandate to protect the interests of Ontario's electricity consumers. The government has passed legislation that enhances the OEB's powers to continue to protect electricity ratepayers with respect to cost, consumer protection and reliability.

With regards to mergers and acquisitions, the OEB has a significant role to play in ensuring any sector restructuring respects the interests of ratepayers. We expect the OEB to continue evaluating proposed mergers to ensure they meet the "no harm" test. Further, the OEB has the ability, through its Renewed Regulatory Framework for Electricity and rate-setting powers, to continue to promote efficiencies in all LDCs.

Ontario Power Generation's Highly Skilled Workforce

In response to your comment on OPG employees on the 2016 public sector salary disclosure list, the salary levels reported reflect the Ontario electricity sector's requirement for committed, highly skilled professionals and trained workers. Safety is the number one priority for OPG and our government, and I am proud of the excellent track record of our generating fleet and the commitment of all employees to maintain this. Energy agencies have been demonstrating their on-going commitment to the government's compensation restraints. This is reflected in declines in total salaries paid to the top 10 earners in the electricity sector by 30 per cent in 2016 from 2009.

Furthermore, the government recently introduced the Executive Compensation Framework Regulation made under the *Broader Public Sector Executive Compensation Act, 2014* which, amongst other requirements, caps salary and performance-related pay at no more than 50th percentile of the appropriate comparators. OPG posted an executive compensation program on the website after consultation in late 2016 and implemented the program effective January 1, 2017 with controls that limit actual compensation well below the regulated caps.

Darlington Refurbishment

Darlington is one of the top-performing nuclear stations in the world and supplies 20 percent of Ontario's energy today. The refurbishment and long-term operation of Darlington is critical to Ontario's energy future. Darlington refurbishment will secure 3,500 MW of affordable, reliable and emission-free power for 30-plus years, boost economic activity across Ontario and create thousands of jobs.

The Conference Board of Canada reports that the Darlington refurbishments and continued operation up to 2055 will contribute almost $90 billion to Ontario's GDP and increase employment by an average of 14,200 jobs annually, including over 2,600 jobs onsite at Darlington. Also, a report by another independent third party highlighted that Darlington refurbishment will help reduce Ontario's GHG emissions by a total of 297 million tonnes, equivalent to taking two million cars off the road each year.

The increase in OPG's regulated nuclear rates during the period of Darlington refurbishments is due to recovery of OPG's nuclear-related costs over reduced nuclear generation, mainly driven by the Darlington refurbishment outages. OPG is currently seeking an increase from the Ontario Energy Board (OEB) for the next five years that is equal to $0.65 per month on average for a typical residential consumer. The average cost of power from Darlington nuclear units over the full 30 years of post-refurbishment operating life will be cost-effective - estimated to be between 7 and 8 cents per kWh (valued in 2015 dollars).

The government is taking significant steps to ensure the refurbishment at Darlington is done right. In addition to OPG's internal and external project oversight, we are ensuring that the government has an independent set of eyes on the project at all times. Our decision to proceed with future Darlington unit refurbishments will depend on the ongoing value to ratepayers and OPG's performance on preceding refurbishments – including adherence to approved cost and schedule. In fact, as I write to you, OPG has successfully completed the first of four major work segments on the refurbishment of Darlington Unit 2. The project remains on track to be complete on time and on budget.

Ongoing Pickering Operation to 2022/2024

Pickering currently provides around 3,100 MW of system capacity through its 6 operating nuclear units and plays a key role in maintaining Ontario's grid reliability. Pickering also supplies approximately 14 per cent of Ontario's electricity, enough to serve a city of approximately 1.5 million. OPG has invested significantly in improving Pickering's performance and reliability in recent years. In fact, in 2015, Pickering achieved the best ever reliability performance in the station's history. Also, for 2015, Pickering along with Darlington and Bruce nuclear stations received the highest safety rating – "Fully Satisfactory" – from the Canadian Nuclear Safety Commission (CNSC).

At this time, Ontario has approved a plan for OPG to seek the necessary regulatory approvals from the OEB and CNSC to enable ongoing operation of the Pickering Nuclear Generating Station beyond 2020, to 2022/2024. OPG will seek final government approval to proceed after these activities have been completed.

Ongoing operation of Pickering would ensure that the province has a reliable source of emission-free replacement baseload electricity during the Darlington and initial Bruce refurbishments. Also, operating Pickering to 2022/2024 would save Ontario electricity consumers up to $600 million, avoid 8 million tonnes of GHG emissions and protect 4,500 jobs across Durham region.

Thank you again for writing.

Sincerely,

Glenn Thibeault
Minister