OEB Decision re OPG 2017-2021 Payment Amounts Application

From:	"Armstrong, Hillary (ENERGY)" <hillary.armstrong@ontario.ca>
To:	"Imbrogno, Serge (ENERGY)" <serge.imbrogno@ontario.ca>
Cc:	"Schlaepfer, Martin (ENERGY)" <martin.schlaepfer@ontario.ca>, "Chatterjee, Jeet (ENERGY)" <jeet.chatterjee@ontario.ca>
Date:	Thu, 04 Jan 2018 10:58:37 -0500
Attachments:	2018-01-02 BN-OPG Payment Amounts decision v2.1.docx (106.17 kB); QAs - OEB - OPG prescribed payment decision - 2017DEC29 - FINAL.DOCX (35.13 kB)

Hi Deputy,

Attached is a revised note based on Andrew's questions below.

Okay to share with MO? OFA has also asked if we can share this note with them , let us know if you're comfortable also sharing with the OFA.

Thanks,
Hillary

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>
Sent: Friday, December 29, 2017 3:54 PM
To: Armstrong, Hillary (ENERGY)
Cc: Imbrogno, Serge (ENERGY); Schlaepfer, Martin (ENERGY); Chatterjee, Jeet (ENERGY); Nucciarone, Michael (ENERGY); Berg, Denna (ENERGY); Whittington, Matt (ENERGY); Campbell, David (ENERGY); Berry, James (ENERGY); Nekolaichuk, Colin (ENERGY); Baker, Carys (ENERGY)
Subject: Re: OEB Decision re OPG 2017-2021 Payment Amounts Application

Good Afternoon:

Certainly interest in a memo like this from PO / other MO's (MoF /TBS, etc.).

But we need to unpack and build out a bit more for a new turn please:

1. Compensation disallowance. Can we get a bit more here (perhaps from the actual decision - is it for senior executives / management - like the wack the OEB took to H1 or does this also benchmark analysis include collectively bargained employees? IE. That could be helpful for the case we build going into negotiation round with PWU in early 2018).

2. Implementation dates of new rates in 2018 (March, April or May) - need to have a disclaimer / clarification that OFHP means that regardless of what happens to OPG rates, impact on residential hydro rates remain protected by OHFP CPI increase at next RPP cycle, so no on-bill impact in the near term.

Could we get a new turn of this memorandum for early / mid next week (appreciating the holiday cycle).

Many thanks, in advance.

Atel/

Andrew Teliszewsky

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> On Dec 29, 2017, at 1:27 PM, Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca> wrote:
>
> Hi Andrew,
>
> Please find attached the Ministry's note on the OEB decision on OPG's rate application.
>
> Thanks,
> Hillary
>
> -----Original Message-----
> From: Armstrong, Hillary (ENERGY)
> Sent: December-28-17 9:26 PM
> To: Teliszewsky, Andrew (ENERGY)
> Cc: Imbrogno, Serge (ENERGY); Schlaepfer, Martin (ENERGY); Chatterjee,
> Jeet (ENERGY); Nucciarone, Michael (ENERGY); Berg, Denna (ENERGY);
> Whittington, Matt (ENERGY); Campbell, David (ENERGY); Berry, James
> (ENERGY); Nekolaichuk, Colin (ENERGY); Baker, Carys (ENERGY)
> Subject: OEB Decision re OPG 2017-2021 Payment Amounts Application
>
> Hi Andrew,
>
> Attached is the OPG decision from today. Below is also OPG's quick summary based on the lockup and decision. We are working on a ministry note as well.
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> Thanks,
> Hillary
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> Today the Ontario Energy Board released its Decision with Reasons on OPG's application for new payment amounts for its nuclear and prescribed hydroelectric facilities for the five-year period 2017-2021. A copy of the Decision is attached.
>
> Our initial review is that there are a number of positive findings in the Decision, including acceptance of OPG's proposed costs for the Darlington Refurbishment Program and Pickering Extended Operations, as well as the nuclear production forecast for the five year period of 2017-2021. The Decision also presents challenges for OPG to manage throughout the course of the remaining four years, including disallowances of certain operating costs and more aggressive cost reduction incentives built into its nuclear rates.
>
> Key elements of the Decision include:
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> Effective Date
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> 1. Approval of June 1, 2017 effective date for the commencement of new payment amounts, as opposed to OPG's proposed January 1, 2017 effective date.
> 2. Approval to recover the shortfall in payment amounts for the period June 1, 2017 through to

the Implementation Date, which will be determined as part of the Payment Amounts Order process. The shortfall amount will be based on forecast production for nuclear facilities and prorating the 2015 actual production for prescribed hydroelectric facilities.
> 3. Potential Implementation Dates provided by the OEB in its Decision are March 1, 2018, April 1, 2018 or May 1, 2018.
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> Darlington Refurbishment Program (DRP)
>
> 1. Full approval of OPG's costs associated with DRP, including:
> · Approval of OPG's requested $5.177 B in-service additions associated with the DRP for 2017-2021, including $4.8 B (reflecting P90 contingency) in early 2020 associated with the scheduled return to service of Unit 2 and $377.2 M for Campus Plan Projects.
> · Approval of OPG's requested $126.9 M DRP OM&A.
>
> Nuclear Operations & Projects
>
> 1. A reduction of $100M per year in OPG's proposed nuclear OM&A, attributable to:
> · $30M/year from compensation, mainly due to OPG's Pension and
> Benefits benchmarking higher than median · $45M/year from corporate
> support costs benchmarking higher than median · $25M/year from nuclear
> base OM&A costs
>
> 1. Revised OPG's proposal for capital in-service additions by updating the forecast based on actual 2016 in-service amounts and 2017-2021 business plan, applying: (i) a 10% reduction to the resulting in-service additions for each year of 2017-2021, and (ii) reducing by 50% of the variance between the first execution business case and in-service amounts for Auxiliary Heating System and Operations Support Building.
> 2. Direction to file an independent audit of OPG's Projects & Modifications (P&M) organization.
> 3. Approval of OPG's proposed costs for Pickering Extended Operations.
>
> Nuclear Production Forecast
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> 1. Approval of OPG's nuclear production forecast as proposed by OPG.
> 2. Denied OPG's proposed Mid-term Nuclear Production Review.
>
> Capital Structure & Return on Equity (ROE)
>
> 1. Denied OPG's proposed increase in the equity portion of the capital structure. Maintained OPG's existing 55:45 debt to equity ratio.
> 2. Approval of the prevailing ROE as specified by the OEB. Rejected annual changes in ROE, consistent with new OEB policy.
>
> Rate Smoothing
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> 1. Approval of 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).
> 2. Rate smoothing methodology to be determined as part of Payment Amounts Order process.
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> Hydroelectric Incentive Regulation Framework
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> 1. Approval of OPG's proposal for setting hydroelectric payment amounts, including: inflation adjustment factor 1.7% for 2017, productivity factor of 0, and stretch factor 0.3%.
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> Nuclear Custom Incentive Regulation
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> 1. Approval of OPG's form of Nuclear Custom IR framework.
> 2. Increase in stretch factor from 0.3% to 0.6%, and application extending to include Project

and Outage OM&A and Nuclear Ops and Support Services in-service additions, in part due to OPG's nuclear benchmarking results.
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> Nuclear Liabilities and Bruce Lease
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> 1. Approval to continue existing methodology for recovering the costs of liabilities for nuclear waste management and decommissioning as proposed by OPG and a requirement to file a study of alternative recovery methods in OPG's next application.
> 2. Approval to continue existing methodology for including the effect of net revenues from the Bruce Lease and related agreements in the calculation of the nuclear revenue requirement.
>
> Deferral and Variance Accounts
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> 1. Approval to apply to clear the Pension & OPEB Cash Versus Accrual Differential Deferral Account prior to November 2019, as requested by OPG.
> 2. Direction to establish (i) a new variance account to true up to actual amounts the Scientific Research & Experimental Development investment tax credits for the nuclear business, and (ii) a new deferral account to track the costs of implementing the CNSC's Fitness for Duty requirements.
> 3. Approval to continue existing deferral & variance accounts and dispose of their 2015 audited balances ($86.8 M for prescribed hydroelectric facilities and $217.9 M for Nuclear), as proposed by OPG. Approval to seek clearance of deferral & variance account balances recorded as part of the 2019 hydroelectric payment amounts application.
> 4. Approval to continue the Capacity Refurbishment Variance Account to record the revenue requirement impact of variances in costs and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to both the nuclear and prescribed hydroelectric generation facilities relative to forecast, including for the Darlington Refurbishment Program.
>
> Next Steps:
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> The Decision directs OPG to calculate the new payment amounts consistent with the OEB's findings and file a Draft Payment Amounts Order by January 17, 2018. Intervenors will have until January 26, 2018 to file comments and OPG will have until February 5, 2018 to reply before the payment amounts are finalized.
>
> OPG is reviewing the Decision in detail and will calculate the new rates consistent with the OEB's decision.
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> <2017-12-28- BN-OPG Payment Amounts decision Dec 29 final.docx>