RE: OPG Rate Application and OEB Decision

From: "Veinot, Cindy (TBS)" <"/o=govon/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=veinot, cindy (tbs)d57">
To: "Schuurman, Tim (MOF)" <tim.schuurman@ontario.ca>, "Hughes, Karen (TBS)" <karen.hughes@ontario.ca>, "Lawson, Shawn (TBS)" <shawn.lawson@ontario.ca>, "Duran-Schneider, Maria (TBS)" <maria.duran-schneider@ontario.ca>
Date: Mon, 08 Jan 2018 14:50:39 -0500

Thanks – doesn't look like this includes any update on the deferred tax issue from the sale of Hydro One. We had heard that there might be additional insight on that during the 3rd week of January. We will follow up and share any updates.

Cindy

From: Schuurman, Tim (MOF)
Sent: January 8, 2018 2:48 PM
To: Veinot, Cindy (TBS); Hughes, Karen (TBS); Lawson, Shawn (TBS); Duran-Schneider, Maria (TBS)
Subject: FW: OPG Rate Application and OEB Decision

Think as Brian updates his forecast, these pieces are under review. FYI.

Tim Schuurman
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Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Lewis, Brian (MOF)
Sent: January-08-18 1:03 PM
To: Kwan, Ronald (OFA); Schuurman, Tim (MOF)
Subject: RE: OPG Rate Application and OEB Decision

Thanks Ron. It might be helpful to break the electricity sector update into two components – OEB Decisions and Other Updates. What do you think?

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: January 8, 2018 12:58 PM
To: Lewis, Brian (MOF); Schuurman, Tim (MOF)
Subject: RE: OPG Rate Application and OEB Decision

Hi Brian,

There are other estimated updates included that help offset the OEB decision, the largest of which is the $171 million estimated upside (as at September 30, 2017) on the Provincial consolidation adjustment for the OPG nuclear funds. OPG had also been running a bit ahead of plan earlier in the year, before the OEB decision.

We hope to get an update from OPG to December 31, 2017, on the nuclear funds adjustment in the next couple weeks. We also hope to get OPG's new multi-year business plan too, that should include the impact of the OEB decision as well as other OPG business planning updates.

At this point, we can't say what the revised net update will be, so there is quite a lot of risk and uncertainty on the OPG numbers.

Ron

From: Lewis, Brian (MOF) [mailto:Brian.Lewis@Ontario.ca]
Sent: January-08-18 12:48
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: OPG Rate Application and OEB Decision

Hi Ron,

The revenue numbers I'm looking at have a significantly smaller impact in 2017-18 of -$204M (compared to -$440M) in the attached. Is that because there were other offsetting positive revenue changes? Something else?

Brian

From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
Sent: December 30, 2017 11:10 AM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Schuurman, Tim (MOF); Lewis, Brian (MOF)
Subject: RE: OPG Rate Application and OEB Decision

Hi,

Attached is a draft BN on a preliminary internal estimate of the fiscal impact of the decision. This will be better defined when OPG does its own and provides a detailed analysis and new multi-year business plan.

Please note, as a clarification, that the OEB and OPG did not address the pension and OPEB issue yet, so still pending a future decision.

Ron

From: Ronald Kwan
Sent: December-29-17 2:14 PM
To: Gadi Mayman < Gadi.Mayman@ofina.on.ca >
Cc: Scott Thompson (CAB) < Scott.Thompson@ontario.ca >; Tim Schuurman (MOF) < Tim.Schuurman@ontario.ca >; Brian Lewis (MOL) < Brian.Lewis@ontario.ca >
Subject: Re: OPG Rate Application and OEB Decision

Hi Gadi,

Yes on both the nuclear liabilities and pensions and OPEB.

As for the GA deferral amount, we'd have to check with Energy and IESO on what they assumed on how the OEB would decide all this and built in for OPG rates, including the timing of the decision and how many retroactive months would be built into rates going forward.

Also, I'm not sure OPG itself expected to get everything they asked for.

Overall, it would likely be a small impact, as OPG also had as part of the application its rate smoothing proposal related to Darlington refurbishment, which the OEB accepted.

Ron

On Dec 29, 2017, at 1:46 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Silly question, and I know it would provide no fiscal offset under the current structure, but would these lower rates mean that OPG will have to borrow less to keep rates down by 25%?
>
> The other question I had was that the biggest ongoing risk you were tracking was the $450 million per year difference if the OEB changed the way that OPG could collect for their Nuclear Liabilities - I assume that the OEB sided with OPG on this one, and also on the potential $600 million one-time risk on pensions and OPEB?
>
> Thanks,
> Gadi
>
> On Dec 29, 2017, at 7:30 AM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>
>> Hi,
>>
>> As a preliminary update on this, the OEB released its decision on Thursday, and the largest impact appears to be from the decision to make OPG's new rates effective only back to June 1, 2017, not as at January 1, 2017, as applied for by OPG. Based on OPG's earlier estimated $60 million per month impact, that would be about a $300 million impact on 2017-18.
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>> The OEB also reduced OPG's allowed revenue requirement for its nuclear OM&A by about $100 million per year (for base costs, executive and corporate services costs, and compensation generally), and did not allow some capital additions or a higher equity share in OPG's debt-equity capital structure (total preliminary estimated impact of about $30 million in 2017).
>>
>> Staff will make an estimated fiscalised impact, and will work with Energy to get OPG's estimate of the impact of the decision. OPG had also been awaiting the OEB decision in order to move forward with its annual multi-year business plan for the period starting in 2018. We will see if we can get OPG's business plan as soon as it is available.
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>> Note that before the OEB decision, OPG had been running ahead of plan from operations and from the nuclear funds (based on the provincial consolidation adjustment impact up to the end of September – to be updated by OPG to the end of December later in January). If sustained through 17-18, that would help mitigate the impact of the OEB decision.
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>> Ron
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>> **From:** Ronald Kwan
>> **Sent:** December-22-17 12:52 PM
>> **To:** Scott Thompson (CAB) < Scott.Thompson@ontario.ca >; Tim Schuurman (MOF) < Tim.Schuurman@ontario.ca >; Brian Lewis (MOL) < Brian.Lewis@ontario.ca >; Gadi Mayman < Gadi.Mayman@ofina.on.ca >
>> **Subject:** OPG Rate Application and OEB Decision
>>
>> Hi,
>>
>> We understand that the OEB's decision may be coming out at 4pm on December 28th. Staff will review when it does come out.
>>
>> On May 27, 2016, OPG filed its application with the Ontario Energy Board (OEB) for

changes in payments amounts for the output of its nuclear generating facilities and the regulated hydroelectric generating facilities for the period January 1, 2017 to December 31, 2021. So this has been an unusually long process.

There are significant risk exposures, as noted before; however, it is challenging to predict what an OEB panel will decide.
Risks include the following:

- *
    a. The OEB reduces OPG's allowable cost recovery from OPG's full submitted costs, for operations (e.g., for labour costs, executive compensation) and cost of capital.
    b. Retroactive rate recovery. The rate application was for rates starting January 1, 2017. OPG has estimated a $60 million per month impact if the rate recovery is not made effective back to that date (to be recovered in a "rate rider" in future rates).
        i. Note, OEB's Hydro One transmission decision that came out in September was made effective back to January 1, 2017.
    c. Pension and OPEB: An estimated $600 million one-time risk if OEB directs OPG to switch from accrual-based to cash-basis for Pension and OPEB costs. An OEB generic review process on pension and OPEB cost recovery is supportive of how OPG accounts for these costs, but the individual panel on OPG's rate application could decide differently, or could decide that a lesser amount than OPG applied for can be recovered.
    d. Nuclear Liability Costs: An estimated $450 million annual ongoing risk reflecting the potential impact of an OEB decision that OPG switch to cash-basis accounting for regulated recovery of nuclear liability cost amounts, instead of on an accrual basis (as has been the case since rates starting in 2005). The OEB staff report did not support the switch for this rate application period, potentially leaving the issue to be raised for the next application; however, the OEB panel does not need to follow OEB staff recommendations and makes its own decisions.

Ron
