Response to Minister Leal's Question, re: OPG rate application

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Date: Thu, 06 Oct 2016 15:45:34 -0400

Matt,

I understand that Minister' Leal had a question at TB last week on OPG's BP regarding the potential impact to OPG, the shareholder and customers should the OEB not approve all or parts of the OPG's application on nuclear rates.

Below is a response from OPG. Any concerns before we share with CO?

Kirby

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The following is in response to a question asked by Minister Leal during the Treasury Board review of OPG's 2016-2019 Business Plan, regarding the potential impact to OPG, the Shareholder and customers should the OEB not approve all or parts of OPG's application to set nuclear rates.

The 4 main areas of OPG application to the OEB are:

1. 1. Recovery of OPG's operating costs to run the nuclear plants
2. 2. Approval of the capital we have in service to produce electricity (this application includes the costs to put the first of 4 Darlington refurbished units in service in early 2020)
3. 3. Approval of the generation forecast for nuclear (used to set the rates OPG gets from the system operator – the IESO)
4. 4. And new for this application is the setting of the "smoothed nuclear rate" – customers will see the impact of this rate on their bill. OPG does not recover all of its eligible costs during the period of Darlington Refurbishment and recovers that shortfall once all the units have been completed – hence "smoothing' in the impacts that customers see.

The following are impacts that can be expected on customers (price) and on OPG's shareholder (net income), as a result of typical actions the OEB may take with OPG's current application to set rates:

Event	**Net Income Impact (5 year period)**	**Customer rate Impact (5 year period)** **$/month / year**
$50M per year disallowance of operating costs	($190M)	0 (smoothing doesn't change)
1% reduction in smoothed rate	Minimal	(~ $0.15 / month/ year)
0.5 TWh adjustment to nuclear production	($200M)	0 (smoothing doesn't change)

With the smoothing approach, the impact customers will see on their monthly bill is the smoothed nuclear rate increase approved by the OEB. OPG is proposing an 11% per year impact as it gradually smoothes rate impacts for customers compared to what rates would be under a typical regulatory filing. At its height, OPG forgoes over $3B in revenue in the next 10 years to be recovered once Darlington refurbishment is complete. A lower smoothing % increase will put disproportionate pressure on future ratepayers to pay this back in later years. If the increase is lower than ~ 8% per year, OPG's commercial credit rating would likely be impacted, thereby increasing OPG's costs.

If the OEB were to disallow certain costs or increase assumed nuclear production, OPG's income would be negatively impacted and the Province's deficit would be similarly negatively impacted since OPG's earnings flow through to the province's bottom line. But customers won't necessarily see any benefit as again, the smoothed nuclear rate % is what the consumer ultimately see on their bill.