

Message

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Sent: 2018-01-03 7:44:42 AM
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Subject: RE: OPG Payment Amounts - OEB Board Decision

All

The OEB has issued its decision in OPG's Payment Amounts application. The OEB has approved the following, effective June 2017 and not January 2017 as proposed by OPG:

- OPG's application relating to the Darlington Refurbishment Program – an addition of \$4,800 million to rate base in 2020 when the first of the four refurbished units is expected to come online.
- OPG to spend \$292 million over 2017 to 2020 to pursue technical assessments relating to extending operations of Pickering beyond 2020
- A requirement for higher productivity expectations
- Reduction in OPG's OM&A budget of \$100 million per year due to poor performance results against its comparators, and excessive compensation when compared to its benchmarked comparators and its own performance, and other excessive costs.
- Approval of the nuclear production forecast

I will provide a more in-depth summary this week, once I have had a chance to review the entire decision. In the meantime, if you would like any additional information, let me know.

Thanks.

Maia

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From: Maia Chase
Sent: June 23, 2017 1:24 PM
To: Andrew Pietrewicz; Bashir Bhana
Cc: Tam Wagner; Michael Lyle
Subject: RE: OPG Payment Amounts - Update

All

OPG has submitted their reply argument in response to the OEB Staff and intervenor arguments. This is the final submission before the OEB makes its decision and order.

OPG addresses all of the arguments made by all and covers all but below I have highlighted the important points around Pickering Life Extension and Rate Smoothing.

Pickering Life Extension

OPG's response focuses on a number of items.

1. Submissions that invite the OEB to assume system planning role that legislation has assigned to the Minister of Energy

This response is to the number of intervenors that stated the OEB should determine whether Pickering is needed and that the determination of need or cost effectiveness is fundamental to determining costs. OPG's response is that selection among alternatives whether denominated in terms of need or cost effectiveness is a system planning function and by Statute, the Minister of Energy is the system planner. The role of the OEB in this proceeding is to determine the amount of Pickering's cost that should be included in setting OPG's payment amounts and not to decide whether Pickering should continue to be part of Ontario's electricity resource mix. On this basis, the OEB should decline to address the question of the need for Pickering to operate.

2. Mischaracterization of the IESO's analysis and testimony to place them in proper context and refute parties' claims

As noted in my email below, most of the intervenors have requested that OPG/IESO provide an updated analysis. The IESO analysis was provided to the Ministry for the Minister's use in deciding whether to approve OPG's pursuit of extended operations. Given that the Minister has announced his decision, the attempts by ED and GEC to provide biased, selective and incomplete updates to the IESO analysis should be rejected as they serve no purpose in deciding the issue before the OEB. Also, the approach of individually updating certain variables while ignoring other changes is fundamentally incorrect. Given the many interrelationships among the variables, it is not possible to simply sum the modifications of individual assumptions and produce a coherent result. Claims that the Pickering costs have increased substantially since the IESO analysis was completed is incorrect as ED compared the incremental costs appropriately used in the IESO's analysis with OPG's current estimate of fully allocated costs. The IESO was fully aware of the difference between incremental and fully allocated costs as OPG had provided the IESO with both. Finally, none of the parties criticizing the IESO's studies elected to provide studies of their own and have them subject to cross examination. The IESO analysis was not outdated when OPG filed its application and they represented the then current analyses available from the IESO.

3. Nature of the government's approval of Extended Operations

Some of the intervenors had stated that OPG had mischaracterized the nature of the Government's approval. They state that OPG had implied that the Government's approval is final and not subject to change. OPG knows that the decision on Extended Operations cannot be final until the necessary regulatory

approvals have been obtained, this should not be taken to mean that the Government is reassessing its expressed support for Extended Operations.

4. OPG refutes the various proposals that seek to defer the costs of Extended Operations for future consideration or reject them altogether

OEB staff seek to defer \$211M in enabling costs that OPG forecasts spending in 2019 and 2020 for the technical work required for Extended Operations and an additional \$250M for restoration of normal operating costs to be spent over 2017-2020. The deferred enabling costs would be recovered through a variance account while restoration costs would be tracked for future recovery in a new deferral account. As also noted in my previous summary, a number of intervenors had indicated a range of proposals for deferring or limiting funding for Extended Operations. OPG believes that OEB staff and other parties have overstated the risk that Extended Operations will not be approved through the CNSC licensing process or included in the 2017 LTEP. If extended Operations receives the necessary approvals, the proposed deferrals and disallowances would be unnecessary. If extended operations is not approved, they would also be unnecessary because OPG would be required to file a new application with the OEB and has committed to do so.

Given that the necessary approvals have not yet been obtained, in the interim, OPG submits that the OEB approve the funds requested to enable Pickering Extended Operations and to restore normal operations and require OPG to file a new application if the necessary approvals for Extended Operations are not issued or OPG determines it cannot proceed with the project.

5. Inaccurate claim that funding Extended Operations and allowing Pickering to operate beyond either 2018 or 2020 will harm customers

Some of the intervenors had submitted, with no evidence to support the claim, that funding Extended Operations and allowing Pickering to operate beyond either 2018 or 2020 will harm customers. OPG states that it is beyond reasonable dispute that if Pickering was to be shut down before the end of the IR term, customers will pay more. OPG's unsmoothed payment amounts to about double in 2021 as the higher costs would be spread over less than half of the currently forecast 2021 production. At the same time, customers would pay to purchase replacement power for Pickering's lost production

Rate Smoothing

In terms of the Fair Hydro Plan, OEB staff had argued that the rationale for smoothing OPG's payment amounts would seem to be diminished by the Fair Hydro Act, and that the OEB should consider whether the Fair Hydro Plan alleviates some of the concerns that might otherwise justify a significant smoothing of OPG's Weighted Average Payment Amounts. OEB staff also stated that since the Fair Hydro Plan appears to be a form of payment amount smoothing, the payment amount smoothing proposed in the application would be unnecessary.

As a matter of law it would be incorrect for the OEB to interpret the payment amount smoothing provisions in regulation differently because of the introduction of the Fair Hydro Act. Payment amount smoothing requirements stand on their own. The OEB's decision on payment amount smoothing should be based on the legislated requirements of O.Reg. 53/05 and the evidence in the proceeding.

All parties agree that the implementation of the OEB's decision on payment amount smoothing would be better deliberated after a final revenue requirement has been set by the OEB. OPG will reserve its comments on the payment amount smoothing mechanics proposals by intervenors until that time.

If you would like information or clarification on any of the items above or on ones not covered in the email, let me know.

Thanks.

Maia

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From: Maia Chase

Sent: June 05, 2017 12:07 PM

To: Andrew Pietrewicz; Bashir Bhana

Cc: Tam Wagner; Michael Lyle

Subject: RE: OPG Payment Amounts - Update

Intervenor final arguments were submitted by over 12 intervenors. I have provided a summary below of the one's that note the Pickering Life Extension and the IESO Cost Benefit Analysis. A number of the intervenors have coordinated their response as to not duplicate arguments. The common argument/statement made is that the 2015 analysis is out of date and that the Board should not allow OPG to recover any costs until an updated analysis has been completed by OPG and the IESO. This updated analysis will show that extending operations at Pickering beyond 2018 is not economic and is a disbenefit.

Environmental Defence (ED)

The main argument for ED is the analysis performed by the IESO is out of date as many factors have changed since the 2015 analysis. It also states that the IESO did not recommend Pickering continue to operate – the IESO stated that the option was worth “further investigation”. The factors that have changed since 2015 are the energy resources to replace Pickering are much cheaper, capacity resources to replace Pickering during times of peak electricity demand are much cheaper and Pickering cost are 22% higher than those included in the CBA.

There was also focus on the IESO contingency plan is Pickering is shut down. The IESO priced replacement capacity at the cost of a new simple cycle gas plant in 2015, and this is no longer what the IESO plans to use in the event that Pickering is shut down. The current plan involves “taking greater advantage of supply resources who existing contracts expire in the coming years, taking advantage of resource options via capacity auctions, and greater use of non-firm intertie transactions.” ED is not criticizing the IESO's preparation of its report back in 2015. The situation has changed significantly since then, including the IESO's thinking on the use of non-firm imports and its inclusion of this option in its contingency planning for a Pickering shutdown.

ED requested that the Board make a finding that the costs to operate Pickering beyond 2018 are not reasonable, disallow some or all of Pickering's costs beyond 2018 or in the alternative, order that OPG submit an updated CBA that addresses the issues raised by intervenors.

Consumers Council of Canada (CCC)

The CCC state that it is premature at this point for the OEB to approve OPG's proposals for the Pickering Extended Operations for the following reasons:

- The CNSC approval has not been granted and may not be expected until August 2018
- The IESO report on which OPG relies on to justify the extension is out of date and the IESO report did not definitely conclude that OPG should proceed. OPG should be required to update the analysis it undertook internally to assess the economics of the Pickering Extended Operations proposal
- There is not a Government of Ontario decision to approve the costs
- The new LTEP has not been issued and it is still unclear as to what the plan will entail or the role of Pickering within the context of the plan
- The OEB does not have sufficient information that demonstrates the extension of Pickering from a cost perspective is reasonable
- There is no downside in requiring OPG and the IESO to provide updates to their studies

- It appears that decision to go ahead will not necessarily be based on the economics but rather to obtain provincial benefits regardless of the project economics

Canadian Manufacturers and Exporters (CME)

CME's main argument like those of the other intervenors is that Pickering is not economically feasible and far from producing savings for the ratepayer and may increase the price of electricity. CME makes reference to the poor performance of Pickering and that OPG is hoping to recover its cost despite Pickering's persistently abysmal performance by any objective measure and there appears to be no reasonable expectation of improvement with respect to Pickering performance today or at any time throughout the proposed extended operations term. CME sites most of the same reasons as CCC for not approving the costs. They ask that the Board not approve any costs associated with extending Pickering operations beyond 2018 until a new economic analysis has been run and clear direction has been received from both the system planner and the IESO that the extended operations will provide a real economic benefit to ratepayers

School Energy Coalition (SEC)

Again, the argument is around the validity of the CBA using today's assumptions. SEC states that the net benefits that are forecast are likely to disappear completely if the models were run based on updated and more accurate assumptions. Based on this the Board should deny the costs to extend and operate Pickering as proposed because they will lead to a system dis-benefit and higher customer bills.

If the model were re-run, the analysis would show that there is no net benefit to the system and ratepayers for extending Pickering to 2022/2024 based on the following.

- System demand – The IESO did not include any sensitivity analysis to changes in system demand. This is concerning since the system demand is one of the key components in determining if a generation source is required
- Pickering Costs – The IESO model shows that, all else being equal, Pickering Extended Operations will only result in a system benefit if the proposed costs stay within 15% of the forecast. OPG has a terrible record completing projects on budget
- OPG Production – the IESO analysis included scenarios where Pickering provides 62 TWh and 65TWh of production during its proposed extended period of operations. OPG's current application forecasts less than what was provided to the IESO. The concern is that OPG has a very poor history of meeting its production forecasts. It has not met its Pickering production forecast in at least the past 7 years.
- Natural Gas Prices – the lower natural gas prices go, the lower the system benefits of extending Pickering. The most important factor in the IESO's analysis is the cost of energy to replace Pickering production. The cost of that energy is influenced by the cost of natural gas
- Capacity Costs – The IESO analysis is based on the cost of a new single cycle natural gas plant at the cost of \$130/KW year. The IESO evidence is that if Pickering is shutdown early, no one will actually be constructing new single cycle natural gas plants. The IESO is looking at other options.

SEC is requesting that the Board should require OPG to request from the IESO an update of the economic analysis using new updated forecasts.

Green Energy Coalition (GEC)

The main argument is around the outdated analysis and that the lower load forecast alone has wiped out any possible system economic benefit of Pickering Extended Operations. Along with lower demand, the other factors mentioned, as in all of the above, are lower natural gas price and carbon costs, optimistic production forecasts, the need for the project and the SBG from Pickering Extended Operations.

The IESO did provide some statistical analysis of the risk of disbenefit due to gas prices, the IESO and OPG have not combined the various risks in their analysis. It is beyond doubt that the Pickering Extended Operations beyond 2020 and even 2018, will in all likelihood be severely cost ineffective. Estimates range from over \$1 billion to over \$2 billion in net costs. The Board should set rates to assume no operation of Pickering beyond 2018 and do not cover the unspent costs of the project itself. Should the government's broader consideration determine that Pickering should continue operations beyond 2018, the costs can and should be addressed via a directive. In the circumstance that the government concludes the project should proceed despite being non-economic and the Board concludes that Pickering costs should be addressed in that scenario, then the Board may wish to set rates on an interim basis for the 2017-2018 period and provide a determination of appropriate payment amounts with and without Pickering to enable rate finalization following a government determination of need.

Energy Probe

EP finds that it is premature to approve the costs for the Pickering Extended Operations (PEO) because the CBA used to support the project are out of date, OPG's forecasting of capital projects has in the past been subpar and the company has yet to receive approval from the CNSC. EP states the same issues around the CBA – lower natural gas prices, poor budget forecast by OPG, poor performance by Pickering.

EP agrees with the position of Board staff that the OEB has the jurisdiction to explore the cost effectiveness of ongoing operating costs of Pickering. The results of this enquiry could ultimately be a decision by the OEB to disallow some (or even all costs related to operating Pickering beyond 2018 or beyond 2020.

EP would have preferred if a system planning issue such as this was dealt with more clearly by either the Ministry of Energy, as Bill 135 articulates, or IESO, which can make clear recommendations to the Ministry of Energy regarding supply and capacity issues. It appears that neither of those bodies has provided the Board with a clear answer whether extending the operations of Pickering past 2020 is the economic decision for ratepayers.

EP feels that the only option for the Board is to order OPG to provide an updated CBA. Until that analysis is provided, the Board could approve costs for 2017 as they relate to PEO, as they may have already incurred, but refrain from approving costs going forward.

If you need any additional information or clarification, let me know.

Maia

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From: Maia Chase
Sent: May 31, 2017 8:39 AM
To: Andrew Pietrewicz; Bashir Bhana
Cc: Tam Wagner; Michael Lyle
Subject: OPG Payment Amounts - Update

This email is just to let you know that the OPG Payments Amount Application is in its final steps before Board. OPG submitted its Argument-in-Chief on May 3 and intervenors submitted their responses on May 19th. I am currently reviewing those responses and will provide a summary if necessary. Based on my start initial read of the ED submission, I will be providing a summary on their submission.

OPG then has until June 19th to respond to the submissions and then the decision is with the Board. We can probably expect a decision late summer.

Maia

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