



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0374

ONTARIO POWER GENERATION INC.

Application for deferral account related to nuclear liabilities,
depreciation and amortization expense

BEFORE: Allison Duff
Presiding Member

Christine Long
Member

March 10, 2016

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1 INTRODUCTION AND SUMMARY

This is a decision of the Ontario Energy Board (OEB) in response to an application filed by Ontario Power Generation Inc. (OPG) for an accounting order to establish a deferral account¹ to record changes to nuclear liabilities and depreciation and amortization expense arising from changes to station end-of-life dates for Bruce Power, Pickering and Darlington that are effective December 31, 2015.

OPG is the largest electricity generator in Ontario. Provincial regulation² requires that the OEB set the payment amounts that OPG charges for the generation from its nuclear facilities (Pickering and Darlington) and most of its hydroelectric facilities (e.g. Sir Adam Beck I and II on the Niagara River). These payment amounts are included in the electricity costs which are shown as a line item on a customer's electricity bill sent from the customer's local electricity distributor.

Previous OEB decisions require OPG to file an application when certain conditions related to nuclear liabilities and depreciation and amortization are met. Changes to nuclear station end-of life dates have resulted in conditions that meet the threshold to file an application. OPG has requested a deferral account and estimates that the impact of the changes to station end-of-life dates would be a credit to customers of more than \$10 million. OPG proposed that the clearance of the account would not take place until a future OPG application for nuclear payment amounts.

The OEB approved the new deferral account on an interim basis pending the review of the draft accounting order and submissions from the intervenors, OEB staff and OPG. The OEB finds the evidence sufficient to approve the establishment of the deferral account on a final basis.

¹ A deferral account tracks the cost of a project or program which the utility could not forecast when the rates were set. When the costs are known, the utility can then request permission to recover the costs in future rates.

² Section 78.1(1) of the *Ontario Energy Board Act, 1998* establishes the OEB's authority to set payment amounts for OPG. Ontario Regulation 53/05 provides that the OEB may establish the form, methodology, assumptions and calculations used in making an order that sets payment amounts.

2 THE PROCESS

OPG filed the accounting order application on December 22, 2015.

The OEB issued the Notice of Application and Hearing, Interim Order and Procedural Order No. 1 on January 27, 2016. The OEB adopted the intervenors and observers from the 2014-2015 payment amounts proceeding as intervenors and observers in this proceeding.

The OEB approved the “Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account” on an interim basis pending the outcome of this proceeding. The OEB made provision for submissions on OPG’s application and draft accounting order,³ and submissions on whether there is a need for further discovery of OPG’s evidence.

Submissions were filed by OEB staff and the following intervenors:

- Association of Major Power Consumers in Ontario (AMPCO)
- Canadian Manufacturers & Exporters (CME)
- Power Workers’ Union (PWU)
- School Energy Coalition (SEC)

OPG filed its reply submission on February 17, 2016.

³ Draft Accounting Order filed February 3, 2016

3 DEFERRAL ACCOUNT

3.1 The Application and Draft Accounting Order

The application was filed in response to the OEB's deferral and variance account payment amounts order issued on April 18, 2013 and the 2014-2015 payment amounts order issued on December 18, 2014. Specifically those payment amounts orders set out the following:

Deferral and Variance Account Payment Amounts Order, April 18, 2013⁴

OPG shall file an accounting order application with the Board and provide notice to intervenors of record in EB-2012-0002 if, other than as a result of an Ontario Nuclear Funds Agreement Reference Plan update, OPG proposes to effect an accounting change impacting the calculation of its Nuclear Liabilities that results in a revenue requirement impact for the prescribed facilities that is neither reflected in the current or proposed payment amounts nor recorded in the Nuclear Liability Deferral Account (including, without limitation, any change in the useful lives of any asset for depreciation or amortization purposes). OPG shall not be required to apply for such accounting orders if the impact on the annualized revenue requirement impact for the prescribed facilities is less than \$10M.

2014-2015 Payment Amounts Order, December 18, 2014⁵

OPG shall file an accounting order application with the Board and provide notice to intervenors of record in EB-2013-0321 if OPG proposes to effect a change in the station lives of its prescribed nuclear generating facilities, for depreciation and amortization purposes, that results in a revenue requirement impact for the prescribed facilities, as a result of impacts on the non-asset retirement cost component of nuclear fixed assets reflected in rate base, that is neither reflected in the current or proposed payment amounts nor recorded in an authorized deferral or variance account. OPG shall not be required to apply for such an accounting order if the impact on the annualized revenue requirement for the prescribed facilities is less than \$10M.

⁴ EB-2012-0002

⁵ EB-2013-0321

The end-of-life dates for units at Bruce Power, units 5-8 at Pickering, and units 1-4 at Darlington have been extended effective December 31, 2015. The station end-of-life is discussed below and is summarized in a table.

The Province of Ontario has announced that it will proceed with refurbishment of 6 units at Bruce Power and the end-of-life dates for these units have been extended accordingly. The financial impact of changes in the nuclear liabilities and depreciation and amortization expense for the Bruce facilities are reflected in the existing Bruce Lease Net Revenues Variance Account. However, as certain costs associated with nuclear liabilities are shared across the nuclear fleet, the changes in end-of-life dates for units at Bruce Power affect Pickering and Darlington.

OPG has extended the life for Pickering units 5-8 by 8 months for fuel channel life extension project and other work. In addition, OPG has extended the life for Darlington units by 12 months for formalized planning and scheduling for refurbishment and assumed post-refurbishment operating life.

	End of Life (Effective Dec. 31, 2014)	End of Life (Effective Dec. 31, 2015)
Bruce A	Dec. 31, 2048	Dec. 31, 2052
Bruce B	Dec. 31, 2019	Dec. 31, 2061
Pickering Units 1-4	Dec. 31, 2020	Dec. 31, 2020
Pickering Units 5-8	Apr. 30, 2020	Dec. 31, 2020
Darlington	Dec. 31, 2051	Dec. 31, 2052

OPG proposed that a new deferral account be approved to record the revenue requirement impact effective January 1, 2016 until the effective date of new nuclear payment amounts incorporating the impacts of the new end-of-life dates.

OPG also filed a draft accounting order describing the account and general ledger entries.

3.2 Requests for Further Information

In addition to the information requested by the OEB, SEC submitted that it would be beneficial if information was filed regarding estimated account entries, details on any possible changes that could arise in 2016, and specification of the baselines for components of the calculations. SEC acknowledged that the calculations are complex, but stated that the filing of the additional information would simplify future analysis.

Should the OEB order discovery, SEC submitted that discovery on the additional information would be required as well. AMPCO supported SEC's submission, stating that the information could be provided in a relatively short timeframe, and submitted that the OEB require OPG to provide the information.

OEB staff submitted that no further discovery is required. However, OEB staff submitted that it would be appropriate for OPG to provide references or baseline data that will be used to determine deferral account additions, noting that the current payment amounts order sets out monthly reference amounts for several accounts in the description of those accounts.

The application estimates that the revenue requirement impact of the change to station lives will be a credit in excess of \$10 million. OPG was only able to provide an estimate as actual year-end information is required to calculate nuclear liabilities. In correspondence filed on February 10, 2016 and in reply submission, OPG stated that it is OPG's plan to file the actual account entries as part of a future application to dispose of the balance in the deferral account. OPG noted that it would take some time to assemble the data requested by SEC and that estimating account entries is not required to establish the deferral account. OPG also noted that the account requested does not deal with changes in 2016 and that OPG will file evidence related to nuclear liability costs in a format similar to that in the 2014-2015 payment amounts proceeding.

The PWU submitted that the application was based on outdated information as the Province of Ontario announced on January 11, 2016 that Darlington refurbishment would move forward and that plans to pursue Pickering operation beyond 2020 were approved. The PWU stated that it would be helpful to know the impacts of the government announcement on the end-of-life assumed in the application and the assessment of revenue requirement impact. Similarly, CME also submitted that the deferral account application was not consistent with the Province's announcement and that presumably additional impacts would be recorded in the account.

OPG replied that the application arises from changes effective December 31, 2015. The Province's announcement occurred after December 31, 2015 and relates to a project that has not achieved a high confidence result.

Findings

The OEB finds the evidence filed by OPG is sufficient to establish the account. Further evidence and discovery is not required. The OEB does not require estimates of the

accounting entries. Parties will have the opportunity to review and test the evidence filed in a future OPG payment amounts case regarding the actual entries and deferral account balance.

The OEB appreciates that the station end-of-life dates may be subject to further update and revision in the future. However it is on the basis of information available as of December 31, 2015, that the account is approved and the general ledger entries as set out in the draft accounting order are accepted.

The OEB accepts OPG's submission that it will file evidence related to nuclear liability costs in its future payment amounts proceeding, in a format similar to the evidence filed in the 2014-2015 proceeding.

3.3 Carrying Costs

The application and the draft accounting order propose that simple interest be applied to the monthly opening account balance. OEB staff submitted that this proposal is not consistent with the approved interest treatment for similar accounts, namely the Nuclear Liability Deferral Account and the Pickering Life Extension Depreciation Variance Account. With respect to nuclear liabilities, OEB staff noted that interest is not recorded in other accounts related to future costs, such as the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

OPG acknowledged that interest does not apply to the Nuclear Liability Deferral Account and the Pickering Life Extension Depreciation Variance Account. OPG stated that it would not contest the OEB staff submission regarding interest.

Findings

The OEB accepts the submission of OEB staff and finds that it is not appropriate to accrue interest on the balance of the new deferral account. The OEB finds that the extension of station end-of-life dates for Bruce Power, Pickering, and Darlington results a change in accounting policy applicable to these assets. In addition, the reduction in depreciation expense has no cash value on which to accrue interest. As a result, consistent with the OEB's payment amounts order of April 18, 2013, no interest should be recorded on the balance of the new deferral account.

3.4 Establishing the Account

The OEB approved the “Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account” on an interim basis in the Interim Order and Procedural Order No. 1. OPG subsequently filed a draft accounting order and general ledger entries as requested by the OEB.

None of the parties objected to the establishment of the deferral account.

Findings

The OEB accepts the draft general ledger entries provided by OPG. The OEB approves the new deferral account on a final basis. This finding should not be construed as approval of the balance that will be recorded in this account, which will be reviewed when the account is brought forward for disposition.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. OPG shall establish the Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account, in accordance with Schedule A, effective January 1, 2016.
2. Cost eligible intervenors shall file with the OEB and forward to OPG their respective cost claims within 7 days from the date of issuance of this Decision and Order.
3. OPG shall file with the OEB and forward to intervenors any objections to the claimed costs within 17 days from the date of issuance of this Decision and Order.
4. Intervenors shall file with the OEB and forward to OPG any responses to any objections for cost claims within 24 days of the date of issuance of this Decision and Order.

DATED at Toronto March 10, 2016

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE A
DECISION AND ORDER
ONTARIO POWER GENERATION INC.
EB-2015-0374
MARCH 10, 2016

**Accounting Order
Ontario Power Generation Inc.
EB-2015-0374**

**Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015)
Deferral Account**

OPG shall establish this new account, effective January 1, 2016, to record the revenue requirement impact arising from changes to nuclear liabilities and depreciation and amortization expense resulting from changes to station end-of-life dates for Bruce Power, Pickering and Darlington that are effective December 31, 2015.

Entry 1: Nuclear liability revenue requirement for prescribed facilities

	<u>Debit</u>	<u>Credit</u>
DR Depreciation Expense	x,xxx.xx	
DR Return on Rate Base	x,xxx.xx	
DR Income Tax Expense	x,xxx.xx	
CR Used Fuel Storage and Disposal Variable Expense		x,xxx.xx
CR Low & Intermediate Level Waste Management Variable Expense		x,xxx.xx
CR Impact Resulting from Changes in Station End- of-Life Dates (December 31, 2015) Deferral Account		x,xxx.xx

To record the impact of the change in nuclear liabilities resulting from changes in end-of-life dates on Asset Retirement Cost (ARC) depreciation, the associated impacts on the return on rate base and variable used fuel and waste management expenses and the tax impact of the refund to ratepayers of the net amount.

Entry 2: Non-ARC revenue requirement impact for prescribed facilities

	<u>Debit</u>	<u>Credit</u>
DR Depreciation Expense	x,xxx.xx	
DR Income Tax Expense	x,xxx.xx	
CR Return on Rate Base		x,xxx.xx
CR Impact Resulting from Changes in Station End- of-Life Dates (December 31, 2015) Deferral Account		x,xxx.xx

To record the impact of the change in nuclear station lives on non-ARC depreciation expense based on December 31, 2015 fixed asset balances, the associated impact on net rate base through the change in accumulated depreciation, and the tax impact of the refund to ratepayers of the net amount.

OPG shall not record interest on the balance of this account.

OPG shall file the balance in the Impact Resulting from Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account in conjunction with its regular reporting on other deferral and variance accounts approved by the OEB.

The account entries will continue until the effective date of the next payment amounts order incorporating the extended nuclear station end-of-life in nuclear payment amounts.