



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

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# **DECISION AND PAYMENT AMOUNTS ORDER**

**EB-2020-0210**

**ONTARIO POWER GENERATION INC.**

**Application for 2021 Hydroelectric Payment Amount Adjustment to  
be effective January 1, 2021**

**By Delegation, Before: Theodore Antonopoulos**

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**December 3, 2020**

# 1 INTRODUCTION AND SUMMARY

Through this Decision and Payment Amounts Order (Decision), the Ontario Energy Board (OEB) approves Ontario Power Generation Inc.'s (OPG) application for approval of an updated payment amount for its hydroelectric generating facilities effective January 1, 2021.

OPG is the largest electricity generator in Ontario. Provincial regulation 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, and R.H. Saunders on the St. Lawrence 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.

The OEB's decision on OPG's last cost-based application approved nuclear payment amounts effective January 1, 2017 and for each of the following years through to December 31, 2021 under a custom incentive rate-setting (IR)<sup>1</sup> framework that is tied to OPG's total cost benchmarking performance for the nuclear business. For OPG's prescribed hydroelectric assets, the OEB approved a price cap plan to adjust payment amounts for the period from January 1, 2017 to December 31, 2021.<sup>2</sup>

OPG's current application for its hydroelectric generating facilities is based on the OEB-approved price cap IR option, with a five-year term.<sup>3</sup> The price cap adjustment calculates the next year's payment amounts as the current approved amounts multiplied by (1 + inflation less expected productivity). With the exception of sector-specific weights<sup>4</sup>, the Input Price Index (IPI) for OPG's hydroelectric payment amounts is based on the same formula and same data as the OEB uses for calculating the IPI used for the applicable electricity distribution rate adjustment (i.e., for rates adjusted by price cap IR, annual incentive rate-setting index, and some custom IR plans).

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<sup>1</sup> The custom IR methodology sets rates for five years considering a five-year forecast of the utility's costs and sales volumes. This method is intended to be customized to fit the specific utility's circumstances, but expected productivity gains will be explicitly included in the rate adjustment mechanism.

<sup>2</sup> EB-2016-0152, Decision and Order, December 28, 2017, p. 121.

<sup>3</sup> The price cap IR option involves the setting of rates through a rebasing application in the first year. Mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency, are typically then approved through mechanistic applications in each of the ensuing four (adjustment) years.

<sup>4</sup> EB-2016-0152, Decision and Order, December 28, 2017, p.122. The weights for OPG's prescribed hydroelectric assets are 12% labour and 88% non-labour.

On November 9, 2020, the OEB established an IPI of 2.0% applicable to OPG effective in 2021.<sup>5</sup> OPG calculated the 2021 hydroelectric payment amount to be \$43.88/MWh based on an escalation of 1.7%, which reflects the inflation factor value of 2.0% less the approved X-factor (which combines a productivity factor with a stretch factor) value of 0.3%.

OPG estimates that the average year-over-year impact on a typical residential customers' monthly bill resulting from the adjustment requested in the current proceeding (and other changes previously approved by the OEB including the expiration of certain debit riders)<sup>6</sup> is -0.03% or -\$0.03 in 2021.<sup>7</sup>

## 2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (OEB Act).

OPG filed its application on September 1, 2020 under section 78.1 of the OEB Act for an order or orders approving a payment amount for hydroelectric generating facilities prescribed under Ontario Regulation 53/05 of the OEB Act, effective January 1, 2021.<sup>8</sup>

The application was supported by pre-filed written evidence and responses to questions from OEB staff regarding that evidence.

## 3 STRUCTURE OF THE DECISION

In this Decision, the OEB addresses the elements of OPG's price cap adjustment and provides reasons for approving OPG's proposal.

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<sup>5</sup> OEB Letter. 2021 Inflation Parameters, November 9, 2020, Appendix A.

<sup>6</sup> EB-2016-0152, Payment Amount Order, March 29, 2018; and EB-2018-0243, Decision and Payment Amounts Order, February 21, 2019. These other approved changes include adjustments to the nuclear payment amount, nuclear production forecast and both nuclear and hydroelectric-related rate riders.

<sup>7</sup> EB-2020-0210, OPG Response to OEB Staff Questions, November 17, 2020, p. 4.

<sup>8</sup> 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.

## 4 PRICE CAP ADJUSTMENT

OPG seeks to increase its hydroelectric payment amount, effective January 1, 2021, based on a mechanistic payment amount adjustment using the OEB-approved *inflation minus X-factor* formula.

The X-factor is the sum of a base productivity factor and a stretch factor. It is a total productivity offset that ensures that payment amounts decline in real, constant-dollar terms over the course of the IR term, providing the utility with a tangible incentive to improve efficiency or else experience declining net income.

The OEB has previously approved a base productivity factor of 0% and a stretch factor of 0.3% for OPG's regulated hydroelectric facilities for the current IR Term (2017-2021).<sup>9</sup>

The components of the price cap IR adjustment formula applicable to OPG are set out in Table 1, below. Inserting these components into the formula results in a 1.70% increase to OPG's payment amounts:  $1.70\% = 2.00\% - (0.00\% + 0.30\%)$ .

**Table 1: Price Cap IR Adjustment Formula**

| Components       |              | Amount |
|------------------|--------------|--------|
| Inflation Factor |              | 2.00%  |
| X-Factor         | Productivity | 0.00%  |
|                  | Stretch      | 0.30%  |

OPG's approved 2020 hydroelectric payment amount was \$43.15/MWh.<sup>10</sup> Based on the 1.7% escalation calculated above, OPG's proposed 2021 hydroelectric payment amount is \$43.88/MWh.

### Findings

The OEB approves OPG's proposed adjustment to its hydroelectric payment amount.

<sup>9</sup> EB-2016-0152, Decision and Order, December 28, 2017, pp. 128-129.

<sup>10</sup> EB-2019-0209, Decision and Payment Amounts Order, December 12, 2019, p. 5.

The OEB finds that the methodology utilized by OPG in this application is in accordance with the OEB's Decision and Order in its application for payment amounts for the period from January 1, 2017 to December 31, 2021.<sup>11</sup>

In EB-2013-0321, the OEB established that the new regulated hydroelectric payment applies to the Chats Falls Generating Station portion owned by OPG. The station is 50/50 shared ownership between OPG and Hydro Québec. This approach to establishing the Chats Falls Generation Station payment has continued with each subsequent decision and is applied in this Decision.

## 5 ORDER

### IT IS ORDERED THAT:

1. Effective January 1, 2021, the payment amount for the regulated hydroelectric facilities is \$43.88/MWh.

The hydroelectric incentive mechanism will continue to operate pursuant to the OEB's approval in EB-2013-0321. As also approved by the OEB in EB-2013-0321, the hydroelectric payment amount will continue to apply to 50% of the output of OPG's Chats Falls Generating Station.

**DATED** at Toronto December 3, 2020

### ONTARIO ENERGY BOARD

*Original Signed By*

Christine E. Long  
Registrar

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<sup>11</sup> EB-2016-0152, Decision and Order, December 28, 2017, p. 121.