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ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* (the "Act") for an Order or Orders determining payment amounts for the output of certain of its generating facilities.

APPLICATION FOR AN ACCOUNTING ORDER ESTABLISHING A DEFERRAL ACCOUNT TO CAPTURE THE REVENUE REQUIREMENT IMPACT ON OPG'S PRESCRIBED NUCLEAR FACILITIES RESULTING FROM CHANGES IN STATION END-OF-LIFE DATES

1. OPG has determined that it will change, for accounting purposes, the current end-of-life ("EOL") dates for its Bruce and prescribed nuclear facilities, effective December 31, 2015. These EOL date changes will have material revenue requirement impacts beginning January 1, 2016.
2. The revenue requirement impacts result from changes to OPG's liabilities for nuclear decommissioning and nuclear waste management ("nuclear liabilities"), effective December 31, 2015, and to depreciation and amortization expense.
3. OPG filed an application (EB-2013-0321) with the OEB under section 78.1 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B)* seeking approval for payment amounts for generating facilities prescribed under Ontario Regulation 53/05 ("O. Reg. 53/05"). The OEB issued its Decision on November 20, 2014. The EB-2013-0321 Payment Amounts Order establishing the current payment amounts was issued on December 18, 2014.
4. This Application is in response to the OEB's EB-2012-0002 and EB-2013-0321 decisions and orders which state that an application for an accounting order is required if:

- 1 i. OPG proposes an accounting change impacting the calculation of its nuclear
2 liabilities, other than as a result of an Ontario Nuclear Funds Agreement (“ONFA”)
3 Reference Plan update, which results in a revenue requirement impact for the
4 prescribed facilities; or,
- 5 ii. OPG proposes to change the EOL dates of its prescribed nuclear facilities, for
6 depreciation and amortization purposes, which results in a non-Asset Retirement
7 Cost (“ARC”) revenue requirement impact.
- 8 5. As set out in the EB-2012-0002 and EB-2013-0321 decision and orders, the accounting
9 order application is only required if the revenue requirement impact is neither reflected in
10 current or proposed payment amounts nor recorded in an authorized deferral or variance
11 account and the annualized revenue requirement impact for the prescribed facilities is
12 \$10M or greater.
- 13 6. The changes to the nuclear liabilities for the prescribed facilities are not associated with
14 an ONFA Reference Plan update and therefore the resulting revenue requirement
15 impact for the prescribed facilities cannot be recorded in the existing Nuclear Liability
16 Deferral Account or any other authorized deferral or variance account. The revenue
17 requirement impact is also not reflected in current payment amounts.
- 18 7. The financial impact of changes in the nuclear liabilities and depreciation and
19 amortization expense for the Bruce facilities, determined in accordance with U.S. GAAP,
20 will be reflected in the Bruce Lease Net Revenues Variance Account in accordance with
21 the EB-2014-0370 Payment Amounts Order and is therefore not subject to this
22 Application.
- 23 8. OPG is not able to provide the annual revenue requirement impact at this time because
24 actual year-end information, required to calculate the December 31, 2015 nuclear
25 liabilities adjustment, is not yet available. However, OPG’s preliminary estimate is that
26 the annual revenue requirement impact will be a credit to ratepayers in excess of the
27 \$10M materiality threshold established by the OEB.
- 28 9. OPG requests the OEB’s approval to establish a deferral account to record the revenue
29 requirement impact on the prescribed facilities arising from changes to nuclear liabilities

- 1 on December 31, 2015 and depreciation and amortization expense beginning January 1,
2 2016 resulting from changes to station EOL dates. The nuclear liabilities impact will be
3 determined in accordance with the methodology previously approved by the OEB for
4 determining the revenue requirement impacts of nuclear liabilities for OPG.
- 5 10. The deferral account is proposed to record the revenue requirement impact effective
6 January 1, 2016 until the effective date of the OEB's next nuclear payment amounts
7 order incorporating the above impacts into OPG's payment amounts.
- 8 11. As the revenue requirement impact commences January 1, 2016, OPG requests that the
9 OEB issue an interim order effective January 1, 2016, approving the establishment of
10 the requested deferral account on an interim basis. This will permit the above revenue
11 requirement impacts to be recorded in a deferral account pending the OEB's final order
12 in respect of this Application.
- 13 12. OPG expects that information supporting the balance in the proposed account, as well
14 as the timing and manner of its disposition, would be reviewed in a future payment
15 amounts application. Accordingly, there is no rate impact at this time from this
16 Application.
- 17 13. As there is no immediate rate impact, OPG requests that this Application proceed by
18 way of a written hearing.
- 19 14. The Application will be supported by written evidence, as required. The written evidence
20 filed by OPG may be supplemented or amended from time to time by OPG prior to the
21 OEB's final decision on the Application.
- 22 15. OPG further applies to the OEB pursuant to the provisions of the Act and the OEB Rules
23 of Practice and Procedure for such orders and directions as may be necessary in
24 relation to the Application and the proper conduct of this proceeding.
- 25 16. The persons affected by this Application are all electricity consumers in Ontario. It is
26 impractical to set out the names and addresses of the consumers because they are too
27 numerous. However, consistent with the OEB's prior directions, OPG has provided
28 notice to intervenors of record in EB-2012-0002 and EB-2013-0321.

1 17. OPG requests that copies of all documents filed with the OEB by each party to this
2 Application along with copies of all comments filed with the OEB in accordance with
3 Rule 24 of the OEB Rules of Practice and Procedure be served on the applicant and the
4 applicant's counsel as follows:

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15
16 Dated at Toronto, Ontario, this 22nd day of December, 2015:

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18
19
20 [Original signed by]
21 _____
22 Andrew Barrett
23 Vice President, Regulatory Affairs

1 **1.0 BACKGROUND**

2 OPG filed an application (EB-2013-0321) with the OEB under section 78.1 of the *Ontario*
3 *Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B)* seeking approval for payment
4 amounts for generating facilities prescribed under Ontario Regulation 53/05 (“O. Reg.
5 53/05”). The OEB issued its Decision on November 20, 2014. The EB-2013-0321
6 Payment Amounts Order establishing the current payment amounts effective November
7 1, 2014 for OPG’s regulated hydroelectric and nuclear facilities was issued on December
8 18, 2014.

9 Pursuant to the OEB’s EB-2012-0002 and EB-2013-0321 decisions and orders, an
10 application for an accounting order is required if:

11

- 12 i. OPG proposes an accounting change impacting the calculation of its nuclear
13 liabilities, other than as a result of an ONFA Reference Plan update, which results in
14 a revenue requirement impact for the prescribed facilities;¹ or
15
16 ii. OPG proposes to change the EOL dates of its prescribed nuclear facilities for
17 depreciation and amortization purposes that results in a non-ARC revenue
18 requirement impact².

19 As set out in the EB-2012-0002 and EB-2013-0321 decision and orders, the accounting
20 order application is only required if the revenue requirement impact is neither reflected in
21 current or proposed payment amounts nor recorded in an authorized deferral or variance
22 account and the annualized revenue requirement impact for the prescribed facilities is
23 \$10M or greater.

24 **2.0 CHANGES IN NUCLEAR STATION END-OF-LIFE (“EOL”) DATES**

25 There are changes to the EOL dates for each of the Bruce, Pickering and Darlington
26 nuclear stations. The changes to the EOL dates will be implemented effective December
27 31, 2015 through adjustments to OPG’s nuclear Asset Retirement Obligation (“ARO”)

¹ EB-2013-0321 Decision (at page 127); requirement was originally established in the EB-2012-0002 Payment Amounts Order (page 7)

² EB-2013-0321 PAO (pages 9 and 10)

1 and Asset Retirement Cost (“ARC”) balances and will be reflected in depreciation and
2 amortization expense beginning January 1, 2016.

3 The changes to the nuclear station EOL dates are as follows:

4 **2.1 Bruce Nuclear Stations**

5 On December 3, 2015, the Province of Ontario (the “Province”) announced that it will
6 proceed with the refurbishment of the six units (i.e., Bruce A Units 3 & 4 and Bruce B
7 Units 5-8) operated by Bruce Power under a lease agreement with OPG and that the
8 Bruce Power Refurbishment Implementation Agreement (“BPRIA”) between the
9 Independent Electricity System Operator (“IESO”) and Bruce Power has been
10 correspondingly updated.³

11 The updated BPRIA sets out the refurbishment schedule for the six un-refurbished Bruce
12 units and the expected post-refurbishment EOL dates for all eight Bruce units. The
13 Province’s announcement and the execution of the updated BPRIA provide OPG with
14 necessary evidence to align the Bruce EOL dates for accounting purposes with the
15 updated BRPIA, effective December 31, 2015. As a result, the average EOL date of the
16 Bruce A station will be extended from December 31, 2048 to December 31, 2052 and
17 the average EOL date of the Bruce B station will be extended from December 31, 2019
18 to December 31, 2061.

19 As certain costs associated with the nuclear liabilities are, by their nature, shared across
20 the nuclear fleet, changes in lifecycle used fuel and waste volumes resulting from
21 changes to a particular station EOL date typically impact the ARO and ARC for all of
22 OPG’s nuclear stations. As such, changes in Bruce station EOL dates impact the ARO
23 and ARC for OPG’s prescribed nuclear stations and these changes are therefore
24 included in this Application.

25

³ The amended BPRIA can be found on the IESO’s website at the following URL:
<http://www.ieso.ca/Documents/procurement/bruce/Amended-and-Restated-Bruce-Power-Refurbishment-Implementation-Agreement.PDF>

1 **2.2 Pickering Nuclear Station**

2 OPG has achieved high confidence that all four of Pickering Units 5-8 are expected to
3 operate until at least the end of 2020. This confidence was achieved through work on the
4 Fuel Channel Life Extension project, among other work.

5 Based on confirmation in 2015 of high confidence that all four Pickering Units 5-8 are
6 expected to operate until at least the end of 2020, OPG is adopting an average EOL
7 date for accounting purposes of December 31, 2020 for these units, effective December
8 31, 2015. This represents an extension from the current average EOL date of April 30,
9 2020.

10 **2.3 Darlington Nuclear Station**

11 In November 2015, OPG's Board of Directors approved the refurbishment schedule for
12 the four units at the Darlington station. This approval formalized the planned durations of
13 the refurbishment outages. Based on the resulting scheduled return-to-service dates for
14 each unit and an assumed post-refurbishment operating life for the units, OPG is
15 extending the average station EOL date for Darlington to December 31, 2052, from the
16 current date of December 31, 2051. This change in expected station EOL date will be
17 effective December 31, 2015.⁴

18 **3.0 REVENUE REQUIREMENT IMPACTS AND MATERIALITY**

19 The largest revenue requirement impact arises from the change in OPG's nuclear
20 liabilities effective December 31, 2015. This impact will be calculated using the OEB-
21 approved methodology for determining the revenue requirement impact of the nuclear
22 liabilities for OPG (for example, as presented in EB-2013-0321 Ex. C2-1-1). The change
23 in the Bruce stations' EOL dates is the predominant driver of the changes to the nuclear
24 liabilities and therefore the revenue requirement impact.

25 A substantial amount of work, based on actual year-end information (including the actual
26 unadjusted ARO balance and discount rate for calculating the ARO change), is required
27 to determine the exact December 31, 2015 ARO and ARC adjustments reflecting the
28 above EOL date changes. These adjustments will be reflected in OPG's December 31,

⁴ This Application does not include any costs of executing the Darlington Refurbishment Project

1 2015 audited financial statements. Once the ARO and ARC adjustments have been
2 derived for the prescribed and Bruce facilities, the revenue requirement impacts
3 beginning in 2016 can be determined.

4 OPG's initial assessment is that the above impact on the prescribed facilities will be a
5 ratepayer credit in excess of the \$10M materiality threshold for filing this accounting
6 order application.

7 Information required to support the revenue requirement impact will be filed as part of
8 OPG's normal filing requirements in its next payment amounts application. The accuracy
9 of the amounts recorded in the proposed deferral account will be subject to review in a
10 future payment amounts application as part of any proposed disposition of the account
11 balance.

12 The financial impact of changes to the nuclear liabilities and depreciation expense for
13 the Bruce facilities, determined in accordance with US GAAP, will be recorded in the
14 Bruce Lease Net Revenues Variance Account in accordance with the EB-2014-0370
15 Payment Amounts Order. As such, these financial impacts are not subject to this
16 Application.

17 **4.0 NEW DEFERRAL ACCOUNT**

18 OPG requests the OEB's approval to establish a deferral account to record the revenue
19 requirement impact on the prescribed facilities arising from changes to the nuclear
20 liabilities on December 31, 2015 and changes in depreciation and amortization expense
21 beginning January 1, 2016 resulting from changes to station EOL dates as outlined in
22 Section 2.0.

23 **4.1 Justification**

24 The EB-2012-0002 and EB-2013-0321 decisions and orders require OPG to file this
25 Application as the changes at the end of 2015:

- 26 • will not result from an ONFA Reference Plan update;
- 27 • will result in an annualized revenue requirement impact for the prescribed facilities
28 that is not reflected in current or proposed payment amounts for 2016;

- 1 • will result in an annualized revenue requirement impact for the prescribed facilities
- 2 that is expected to be higher than the \$10M materiality threshold; and,
- 3 • will not be eligible to be recorded in a previously authorized deferral or variance
- 4 account.

5 OPG will be making the change to the December 31, 2015 nuclear ARO and ARC
6 reflecting above-noted changes to the nuclear station lives in order to fairly present its
7 financial statements in accordance with US GAAP. The revised station lives represent
8 OPG's current best estimate, for accounting purposes, of the expected period of
9 operation for its nuclear facilities. In the case of the Bruce stations, which are the main
10 driver of the revenue requirement impact, the EOL date changes result from an event
11 wholly external to OPG, being the execution of the amended BPRIA between Bruce
12 Power and the IESO.

13 **4.2 Account Operation**

14 OPG proposes that the deferral account record the revenue requirement impact on
15 OPG's prescribed nuclear facilities outlined in this Application. As the changes in station
16 lives and ARO and ARC balances will be effective December 31, 2015, the
17 corresponding revenue requirement impact will begin January 1, 2016. Therefore, OPG
18 proposes to record this revenue requirement impact effective January 1, 2016 until new
19 payment amounts incorporating these impacts come into effect.

20 OPG proposes that the OEB's Prescribed Interest Rate policy apply to the monthly
21 opening balance of this account. OPG will apply simple interest to the monthly opening
22 balance of the account until the balance is disposed.

23 **4.3 Reporting**

24 OPG proposes to file the balance in the proposed deferral account in conjunction with its
25 regular reporting on the other variance and deferral accounts approved by the OEB.

26 **4.4 OPG's Future Payment Amounts Applications**

27 As part of the next nuclear payment amounts application, OPG will provide information
28 with respect to its nuclear liabilities, separately for the prescribed and Bruce facilities, in
29 the format consistent with EB-2013-0321, Ex. C2-1-1 Tables 1 to 5. This will include

1 separate information on the revenue requirement impact of the December 31, 2015
2 changes to the nuclear liabilities reflecting changes to nuclear station EOL dates outlined
3 in Section 2.0.

4 OPG will provide a proposal for the disposition of amounts recorded in the new deferral
5 account in a future application. As part of that application, OPG will also provide detailed
6 information to support amounts recorded in the account. The account balance will be
7 included in the audit of OPG's deferral and variance account balances.