CLEARANCE OF DEFERRAL AND VARIANCE ACCOUNTS

1.0 PURPOSE

This evidence describes OPG's proposed approach for clearing the deferral and variance account balances described in Ex. H1-T1-S1.

2.0 SUMMARY

OPG is requesting test period payment riders for regulated hydroelectric and nuclear production to amortize audited deferral and variance account balances as of December 31, 2010. These riders will reflect disposition for the period March 1, 2011 to December 31, 2012 of a portion of total deferral and variance account balances for regulated hydroelectric and nuclear production, and will be calculated as described in sections 3, 4 and 5 of this exhibit.

The balances as at December 31, 2010 will consist of unamortized amounts that were approved by the OEB for the period up to December 31, 2007; amounts that were recorded in 2008 and 2009 pursuant to the methodology approved by the OEB in EB-2007-0905; and, amounts to be recorded in 2010 pursuant to the methodology approved by the OEB in EB-2009-0174. OPG is proposing to clear the 2010 actual balances rather than 2009 actual balances as the bulk of the change in balances in 2010 consists of amortization as approved in EB-2009-0174 and an addition to the Tax Loss Variance Account.

The EB-2007-0905 Decision and Order approved the clearance of deferral and variance account balances as at December 31, 2007. The Order stated that these balances were to be cleared over 21, 33 or 45 months from April 1, 2008, as shown in the chart below:

Account	Recovery Period (Months)
Hydroelectric Water Conditions Variance Account	21
Ancillary Services Net Revenue Variance Account - Hydroelectric	21
Ancillary Services Net Revenue Variance Account – Nuclear	33
Transmission Outages and Restrictions Variance Account	33
Nuclear Liability Deferral Account	33
Nuclear Development Deferral Account	33
Pickering A Return to Service Deferral Account	45

The EB-2009-0174 Decision and Order approved the continuation of the nuclear payment rider A beyond December 31, 2009, as well as the continued amortization and recovery of the approved December 31, 2007 balances in the following accounts:

- Ancillary Services Net Revenue Variance Account – Nuclear
- Transmission Outages and Restrictions Variance Account
- Pickering A Return to Service Deferral Account
- Nuclear Liability Deferral Account
- Nuclear Development Deferral Account

This decision has been reflected in the amortization amounts to be recorded for 2010 and the projected variance and deferral account balances as at December 31, 2010.

As noted in Ex. H1-T1-S1, the EB-2009-0038 Decision and Order authorized the Tax Loss Variance Account. The balance in this account has been allocated to hydroelectric and nuclear sub accounts as described in Ex. H1-S1-T1, section 4.3.

OPG proposes to apply payment riders on its regulated hydroelectric and nuclear production to recover the portion of the December 31, 2010 variance and deferral account balances to be amortized during the test period.

The methodology and rationale for the proposed recovery of deferral and variance account balances is described in section 3.0. The recovery of hydroelectric variance account balances is discussed in section 4.0. The recovery of nuclear deferral and variance account balances is discussed in section 5.0.

3.0 METHODOLOGY

The use of payment riders in the form of a $/MWh rate is consistent with the OEB's Decisions in EB-2007-0905 and EB-2009-0174**.**

Riders are calculated in three steps. First, an amortization period is determined for each account. Second, based on each account's amortization period, the amount to be amortized during the test period is determined. Finally, the total amount to be amortized during the test period is divided by forecast energy production to determine the payment amount rider.

OPG proposes that the same payment riders be used for both years of the test period as this is easier to implement, and administer than different riders for each year. As the payment riders are based on forecast production, any differences between forecast and actual production will cause a variance which will be tracked in the Nuclear and Hydroelectric Over/Under Recovery Variance Accounts consistent with EB-2009-0174. Interest will be recorded on a monthly basis at the OEB's prescribed interest rate.

4.0 RECOVERY OF HYDROELECTRIC VARIANCE ACCOUNTS

The method of calculation of the hydroelectric payment rider is shown in Ex. H1-T2-S1 Table 1 using the projected balances that were filed on May 26, 2010. The rider will be set during the finalization process for the payment amounts order as described in Ex. H1-T1-S2.

OPG proposes to amortize the balance in the Tax Loss Variance Account over the 46 month period from March 1, 2011 to December 31, 2014. This extended amortization period was chosen to lessen ratepayer impact.

Consistent with the Order in EB-2007-0905, OPG proposes to clear the balances in the remainder of the Hydroelectric variance accounts by the end of the test period, in this case from March 1, 2011 to December 31, 2012.

OPG proposes a single payment rider beginning March 1, 2011 to recover all hydroelectric account balances. The use of one clearance period for most accounts is administratively simple and aligns with the end of OPG's test period. It is also consistent with the recovery period for hydroelectric variance accounts approved by the OEB in EB-2007-0905.

The balance in each variance and deferral account as at December 31, 2010 is amortized on a straight line basis commencing March 1, 2011 and ending December 31, 2012, or December 31, 2014 in the case of the Tax Loss Variance Account. The total amortization expense over this 22-month period March 1, 2011 to December 31, 2012 is divided by the production forecast for that period to calculate the payment amount rider.

5.0 RECOVERY OF NUCLEAR DEFERRAL AND VARIANCE ACCOUNTS

The method of calculation of the nuclear payment rider is shown in Ex. H1-T2-S1 Table 2 using the projected balances that were filed on May 26, 2010. The rider will be set during the payment order finalization process as described in Ex. H1-T1-S2.

Because the current $2.00/ MWh Rider A continues until changed by the OEB, there will be an over collection of revenue related to Rider A for January and February of 2011. OPG has estimated this over collection based on forecast nuclear production for those months and has adjusted the December 2010 projected balance in the Nuclear Deferral and Variance Over/Under Recovery Variance Account in Ex. H1-T2-S1 Table 2. OPG proposes to clear the adjusted balance in this account.

Consistent with the payment order in EB-2007-0905, OPG proposes a single payment rider to recover nuclear account balances.

OPG proposes to amortize the projected December 31, 2010 balances in the Nuclear deferral and variance accounts on a straight line basis using amortization periods for the various accounts as follows.

The balance remaining in the Pickering A Return to Service (PARTS) Deferral account will be amortized over 12 months (January 1, 2011 to December 31, 2011), consistent with the OEB's EB-2007-0905 Decision which established a 45-month amortization period for this account commencing April 1, 2008.

The balance in the Tax Loss Variance Account will be amortized over the 46 month period from March 1, 2011 to December 31, 2014. This extended amortization period was chosen to lessen ratepayer impact.

All other account balances will be amortized over the 22 months commencing March 1, 2011 and ending December 31, 2012. The use of a single clearance period for the majority of accounts is administratively simple and is aligned with the end of OPG's test period.

Having determined the amortization amount for each account, the sum of these amortization amounts for the individual accounts is then divided by the nuclear production forecast for the period March 1, 2011 to December 31, 2012 to calculate the payment amount rider.