UPDATE TO THE DEFERRAL AND VARIANCE ACCOUNTS

1.0 PURPOSE

The purpose of this exhibit is to provide updated information with respect to the expected deferral and variance account balances at December 31, 2010 and to amend OPG's clearance proposal for these accounts.

2.0 SUMMARY

OPG has new information with respect to the expected deferral and variance account balances at December 31, 2010. This new information incorporates experience year to date, and updates the forecasts for the balance of the year. The updated projection is presented in Ex. H1-T1-S2, Table 1. The main changes to the expected balances are described in section 3.0 below.

The updated projection for December 31, 2010, including corrections and other adjustments as discussed in section 3.2, shows a credit balance of ($17.4M) for regulated hydroelectric and a debit balance of $690.1M for nuclear. The regulated hydroelectric credit balance has decreased by $28.4M from ($45.8M) per Ex. H1-T1-S1, Table 1. The nuclear debit balance has decreased by $2.4M from $692.5M per Ex. H1-T1-S1, Table 1.

To respond to concerns expressed by intervenors, OPG is proposing to clear the actual audited balances as at December 31, 2010 rather than the forecast balances. The calculation of the payment riders would use the same methods as described in Ex. H1-T2-S1 except that is would use the actual, audited balances. Illustrative riders consistent with the updated projections are ($1.66)/MWh for regulated hydroelectric and $5.06/MWh for nuclear. The final riders will be calculated based on the final audited account balances as of December 31, 2010. The final balances and the auditors' report on these balances will be available to intervenors as part of the review process for the payment amounts order. This proposal is described in more detail in section 4.0 below.

3.0 UPDATED BALANCES AS AT DECEMBER 31, 2010

OPG has updated its projected deferral and variance account balances as at December 31, 2010. The updated projection is presented in Ex. H1-T1-S2, Table 1. The update incorporates experience to date and updated forecasts for the balance of the year[1]. The update also includes corrections and other adjustments identified since the filing of the application on May 26, 2010. OPG will incorporate these changes into the final balances as at December 31, 2010 and the calculation of the payment riders during the finalization of the payment amounts order.

3.1 UPDATE BASED ON 2010 EXPERIENCE TO DATE

This section describes changes to projected December 31, 2010 account balances based on actual experience to date and updated forecasts for the balance of the year.

3.1.1 Nuclear Accounts

The main changes to the projected balances of the nuclear accounts are to the Bruce Lease Net Revenues Variance Account and the Nuclear Development Variance Account.

The updated forecast of transactions in the Bruce Lease Net Revenues Variance Account during 2010 are a credit of approximately ($30M), as compared to a credit of ($14M) as filed on May 26, 2010. The change is primarily due to the fact that the actual year to date earnings on the nuclear segregated funds are higher than budgeted, partially offset by an update to the valuation of the derivative embedded in the terms of the Bruce Lease agreement, as described in Ex. G2-T2-S1, page 4, lines 14-21 and page 7, lines 17-30.

The transactions in the Nuclear Development Variance Account during 2010 are forecast to be a credit of approximately ($44M), as compared to a credit of ($35M). This is due to lower than expected expenditures associated with new nuclear at Darlington.

[1] Updates reflect experience to August 31, 2010 with the exception of earnings on nuclear segregated funds, which reflect experience to September 30, 2010 and form part of the Bruce Lease Net Revenues Variance Account.

Changes in the Nuclear Fuel Cost Variance Account, the Bruce Lease Net Revenues Variance Account and the Nuclear Over/Under Recovery Variance Account also reflect an updated projection for 2010 nuclear production.

All nuclear variance and deferral accounts have been updated to reflect an OEB-prescribed interest rate of 0.89 per cent effective July 1, 2010 for the remainder of the year, as compared to 0.55 per cent assumed in the original filing of the application.

3.1.2 Regulated Hydroelectric Accounts

The main changes to the projected balances of the regulated hydroelectric accounts are to the Hydroelectric Water Conditions Variance Account and to the Ancillary Services Net Revenue Variance – Hydroelectric Sub Account.

The transactions in the Hydroelectric Water Conditions Variance Account during 2010 are forecast to be a credit of approximately ($13M), as compared to a credit of ($28M) in the original filing of the application. The lower credit entry is primarily a result of lower water conditions than originally anticipated.

The transactions in the Ancillary Services Revenue Net Revenue Variance – Hydroelectric Sub Account are forecast to be a debit of approximately $7M as compared to a credit of ($6M) as filed on May 26, 2010. This change is mainly due to lower than budgeted operating reserve and automatic generation control revenues from the regulated hydroelectric facilities due to lower water conditions and lower than anticipated market prices.

All regulated hydroelectric variance accounts have been updated to reflect an OEB-prescribed interest rate of 0.89 per cent effective July 1, 2010 for the remainder of the year, as compared to 0.55 per cent assumed in the original filing of the application.

3.2 CORRECTIONS AND ADJUSTMENTS

This update also contains corrections and adjustments to the deferral and variance account balances, as outlined below.

1. The 2009 actual costs for the Fuel Channel Life Cycle Management Project were inadvertently excluded in the calculation of the Capacity Refurbishment Variance Account balance. The $2.5M in actual expenditures on this project can be found at Ex. F2-T3-S1, Table 1, line 13, column (c). The effect of this correction is the addition of $2.6M (including $0.1M in interest) to the Capacity Refurbishment Variance Account. Attached Table 2 shows the impact of this correction on Ex. H1-T1-S1, Table 8.

2. Several accounts require the use of actual nuclear production in the calculation of account transactions – the Nuclear Fuel Cost Variance Account, the Bruce Lease Net Revenues Variance Account and the Nuclear Over/Under Recovery and Interim Period Shortfall Variance Accounts. The actual production figures included in Ex H1-T1-S1, Tables 9, 10 and 12 for 2008 and 2009 were incorrect and have been changed to reflect the actual 2008 and 2009 nuclear production figures shown at Ex. E2-T1-S1, Table 1, line 5, columns (b) and (c). The net effect of these corrections is the addition of a total of $6.7M to the balances in the above accounts, including the impact on interest. Attached Tables 3, 4 and 5 show the impact of this correction on Ex. H1-T1-S1, Tables 9, 10 and 12, respectively.

3. As noted in OPG's response to interrogatory L-01-122, part (c), the projected balance of the Income and Other Taxes Variance Account as at December 31, 2010 should reflect the recovery from ratepayers of $11.1M (including $0.2M of interest) relating to an unburned nuclear fuel expense adjustment resulting from the resolution of matters pertaining to the audit of OPG's 1999 taxation year. This amount represents an increase to the regulatory tax expense of the prescribed facilities from April 1, 2008, the effective date of the Income and Other Taxes Variance Account, to December 31, 2010 as compared to the benchmark tax expense presented in Ex. F4-T2-S1, Table 9. Further details on the tax audit adjustment giving rise to this entry in the account can be found in confidential undertaking JTX 1.2. Attached Table 6 shows the impact of this correction on Ex. H1-T1-S1, Table 13.

4.0 MODIFIED CLEARANCE PROPOSAL

To respond to concerns expressed by intervenors, OPG is modifying its proposal to clear the actual audited balances as at December 31, 2010 rather than the forecast balances. OPG is providing for an external audit of the actual balances prior to the fixing of the payment amounts and payment riders through the finalization process for the payment amounts order. Therefore, OPG proposes that the OEB use its actual, rather than forecast, balances as at December 31, 2010 as verified by OPG's auditors for setting the payment riders. OPG does not propose any changes to the recovery periods or methodology set out in Ex. H1-T2-S1.

The expected timing of the Board's decision (i.e., late January or early February 2011) would allow OPG sufficient time to have its December 31, 2010 actual balances audited by OPG's external auditors. These actual balances, the auditors' report and any proposed adjustments to the accounts resulting from the OEB's Decision would be available for intervenors and Board staff to review and comment on during the review process for the payment amounts order. The auditors' report would provide additional assurance to the OEB with respect to the accuracy of the balances and is expected to be available in early February 2011. This timing is consistent with the proposed effective date for new payment amounts of March 1, 2011.