Board Staff Interrogatory #126

Ref: Ex. G2-T2-S1, page 5, lines 19-26

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

News stories in early July 2010 state that Bruce Power is planning to ship radioactive steam generators from the Bruce NGS to Sweden for recycling.

a) Has Bruce Power exercised its option to retrieve the low level radioactive waste (steam generators) from OPG?

b) If this option has been exercised, what are the impacts on OPG's revenues and costs?

Response

a) Yes. The option was exercised in early August 2010.

b) The impact on OPG's revenues and costs with respect to the Bruce Nuclear Generating Stations will be recognized in accordance with Generally Accepted Accounting Principles ("GAAP") over the period beginning with the commencement of waste retrieval and ending when waste retrieval is complete. Exercise of the option in and of itself does not trigger any impact on costs or revenues.

   The accounting impact is expected to be a net decrease to waste management variable expenses of approximately $5M to $8M, with a significant portion of the waste management variable expense impact being recorded upon completion of the waste retrieval. As this net decrease is recognized for accounting purposes, OPG expects to record a net credit to customers in the Bruce Lease Net Revenues Variance Account.

Board Staff Interrogatory #127

Ref: Ex. G2-T1-S1, page 8, lines 1-8

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Supplemental rent for refurbished Bruce A units is significantly lower than for non-refurbished units.

a) What is the expected impact of this different rent on OPG's net Bruce rent revenues in 2011 and 2012?

b) How is this different supplemental rent calculated?

c) What is the economic rationale for this difference in supplemental rents?

Response

a) To date, OPG has not collected any supplemental rent for Bruce A, Units 1 and 2. These units are currently being refurbished by Bruce Power and they have not been operational since Bruce Power assumed the operations of the Bruce Nuclear Generating Stations in 2001. OPG's forecast of supplemental rent revenue for the 2011 – 2012 test period is presented in Ex. G2-T2-S1, Table 2. It includes approximately $15M in additional supplemental rent revenue for these units based on the supplemental rent rates applicable after refurbishment. To the extent that the actual amount of supplemental rent revenue is different from this forecast, OPG would record the variance in the Bruce Lease Net Revenues Variance Account.

b) The annual supplemental rent rate for refurbished and non-refurbished operational units is a contractual rather than a calculated amount. This amount includes an annual Consumer Price Index adjustment. The amount of supplemental rent that OPG receives for refurbished and non-refurbished Bruce units is described in Ex. G2-T2-S1, pages 3-4.

c) The difference in supplemental rent rates for refurbished and non-refurbished units relates to the Bruce A Refurbishment Agreement between Bruce Power and the Province of Ontario. OPG is not a party to this Agreement. OPG is not privy to the economic rationale for the difference in supplemental rates.

CCC Interrogatory #033

Ref: Ex. G2-T2-S1

Issue Number: 7.3
Issue: Are the proposed test period nuclear business non-energy revenues appropriate?

Interrogatory

OPG retained Black and Veatch to review OPG's methodology for assigning and allocating revenues and costs to the Bruce Facilities under the Bruce Lease. Please provide the terms of reference for the study. Was the study tendered? If not, why not?

Response

Black & Veatch Inc. ("B&V") was engaged to perform a review of the Centralized Support and Administrative Costs Allocation Methodology as explained in Ex. L-04-025. B&V completed a similar review in 2006 for OPG, but this review did not include OPG's methodology for assigning and allocating revenues and costs to the Bruce facilities under the Bruce Lease. The 2009 review, however, was expanded beyond the scope of the 2006 review to include the methodology for the Bruce facilities. The underlying principles of OPG's allocation methodology are consistently applied to both corporate cost and Bruce Facility revenue and costs by applying the appropriate driver to each component. On that basis, OPG decided that using the same consulting company and the same staff would result in lower costs and a more efficient process.

The terms of reference for the engagement are provided in Attachment 1.

BLACK & VEATCH
Building a **world** of difference.

June 11, 2009

Ms. Lubna Ladak
Mr. Tom Staines
Ontario Power Generation Inc.
Proposal Depository, HG103
700 University Avenue
Toronto, Ontario
Canada M5G 1X6

Dear Ms. Ladak and Mr. Staines:

Black & Veatch Canada Company ("B&V" or "we") is pleased to submit this Proposal to Ontario Power Generation Inc. ("OPG") to perform a Cost Allocation Review – 2009 ("2009 Review").

B&V performed a Cost Allocation Methodology Review for OPG in 2006 ("2006 Review") and issued our Report dated April 30, 2006 ("2006 Report"). The purpose of the 2006 Review was to evaluate whether the methodology employed by OPG separates Support and Administrative Costs ("CSA Costs") among regulated nuclear, regulated hydroelectric and unregulated operations in a manner that meets current best practices and is consistent with precedents on cost allocation established by the Ontario Energy Board ("OEB"), and to make appropriate recommendations to OPG.

Proposed Scope of Work

We understand that OPG will apply the same methodology in allocating CSA Costs in its rate application to be presented to the OEB in the first quarter of 2010. B&V's Proposal for the Scope of Work, developed based on discussions with you, comprises:

- Review OPG's allocation of CSA Costs among regulated, regulated hydroelectric, and unregulated operations to determine if it is consistent with the method used by OPG and reviewed by B&V in connection with the 2006 Report, is consistent with standard regulatory practices, and is appropriate for the business of OPG. Our review will include:
  - Review the business of OPG and its organization, including the departmental costs included in CSA Costs;
  - Evaluate the methodology including design, use of direct assignment, selection of cost drivers, and evaluation of the three pronged test as it applies to OM&A and the asset service fee;
  - Test that the methodology is appropriately applied to the CSA costs in OPG's rate application.
  - Allocation of CSA and nuclear support groups costs to the nuclear new build project.

- Allocation of costs and revenues to the stations on lease to Bruce Power.

- Prepare a written report on our work of comparable depth to the 2006 Report.

Project Team

Mr. Stephen A. Stolze will be responsible for the timely completion of the project in accordance with the Proposed Scope of Work.

The project will be managed by Howard Gorman, who completed the 2006 Review as well as several similar assignments for Hydro One (which is regulated by the OEB). Mr. Gorman will manage the project on a day-to-day basis.

Other Black & Veatch consultants will be supporting Mr. Gorman as necessary.

Proposed Budget, Schedule, and Terms and Conditions

Budget

We will bill on a time and material basis for this work. The hourly rate for Mr. Gorman, effective at least through March 31, 2010, is US$290 / hour. Other consulting personnel, as needed, will be billed at rates as agreed with OPG. Our estimate of the consulting fees for the Project Scope of Work outlined above is US$100,000.

Out-of-pocket expenses including travel are in addition to consulting fees and are billed at actual cost.

All amounts will be billed in U.S. Dollars.

Schedule

We will commence work within two weeks of your acceptance of this Proposal. The work will be completed in two phases, to promote the efficient use of resources for OPG and for B&V. In Phase 1, B&V will review OPG's CSA methodology, and other allocation issues, and, and will review the spreadsheets and other models used by OPG to implement the methodology. The Phase I deliverable will consist of a brief report stating our findings including exceptions, recommendations and / or endorsement. Phase 1 will be completed by August 31, 2009, assuming our work commences by June 30, 2009.

In Phase 2, we will review the calculations made and the results of the CSA cost allocation methodology, as well as application of the methodology in OPG's rate application, and any other work performed by B&V on this project. Phase 2 also includes preparation of a written report suitable for inclusion in OPG's Rate Case filing. Phase 2 will be completed in February 2010; the schedule will be developed by OPG and B&V based on OPG's anticipated filing date and the availability of information.

Terms and Conditions

We anticipate completing a contract on mutually satisfactory terms as soon as practical. Our estimate of consulting fees and schedule is based on the following assumptions:

- Commencement of work by June 30, 2009.
- Receipt of all materials and information requested on a timely basis.
- Access to OPG personnel as requested on a timely basis, and assignment of adequate personnel to the project.
- No significant exceptions are found; if significant exceptions are found it could add 15% to 25% to the cost.
- Our work will rely on the genuineness and completeness of all documents and information presented to us by OPG, without independent confirmation.

We have been pleased to work with OPG in supporting its CSA cost allocation methodology in the past and its successful submittal to the OEB. We look forward to continuing to work with you.

We anticipate doing this work under OPG Purchase Order 4400027315 dated February 11, 2009.

If further information is required, please contact Howard Gorman at (631) 348-4090 ext 207 or me at (631) 348-4090 ext 205, or e-mail GormanHS@bv.com or RuddenRJ@bv.com

Very truly yours,

Richard J. Rudden
Vice President
Black & Veatch Canada Company

C: Russell Feingold; Howard Gorman, Steve Stolze

Accepted for Ontario Power Generation Inc.

Name: Lubna Ladak
Lubna Ladak
Title: Director, Regulatory Finance
Date: July 2, 2009

CCC Interrogatory #034

Ref: Ex. G2-T2-S1

Issue Number: 7.3
Issue: Are the proposed test period nuclear business non-energy revenues appropriate?

Interrogatory

Please explain, how if at all, Surplus Baseload Generation impacts the Bruce Lease payments.

Response

Surplus Baseload Generation would not impact the lease payments Bruce Power makes to OPG unless there was a situation where a Bruce Power unit was shut down for the entire year (January 1 to December 31). In this case, OPG would receive no supplemental rent payments for that unit as per the terms of the lease agreement.

SEC Interrogatory #039

Ref: Ex. G2-T2-S1, page 38

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

The evidence states that OPG and Bruce Power reached an agreement that effectively binds Bruce Power to renewal of the Bruce Lease beyond 2018. It also states that OPG agreed not to seek a base rent increase resulting from the increase in the estimated cost of decommissioning the Bruce A and B stations.

a) Please provide the increase costs of decommissioning.

b) Please provide the financial analysis/study that was undertaken to support the decision to make this agreement.

c) Please provide the internal memorandum that we provided to OPG senior executives in support of the decision to extend the Bruce Lease.

Response

a) The revised decommissioning cost estimate for the Bruce stations, as determined in the review undertaken in 2006, was $1,237M (2001 dollars present value). This represented an increase of $212M over the initial decommissioning cost estimate of $1,025M (2001 dollars present value).

b) The requested financial analysis is provided in Attachment 1. The decommissioning liability cost estimate decreases as Bruce Power continues to operate the plant beyond 2018, thus extending the decommissioning date. The attached financial analysis includes the following:

- An updated decommissioning liability cost estimate for each year beyond 2018 with the decommissioning liability estimate shown to decline over time as the decommissioning date is extended.

- Illustration that the updated decommissioning liability declines to the original 2001 level between the years 2027 and 2028.

c) No internal memorandum was provided to OPG senior executives.

shutdown date	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
2001 PV $M																			
Original Bruce lease	1,025																		
Bruce Total	1,237	1,213	1,189	1,166	1,143	1,121	1,100	1,079	1,058	1,038	1,018	999	980	961	943	926	908	892	875
Bruce A	606	594	582	571	560	549	539	529	518	509	499	490	480	471	463	454	446	437	429
Bruce B	631	619	607	595	583	572	561	550	539	529	519	509	499	490	481	472	463	454	446
Variances																			
100% variance	212	188	164	141	118	96	75	54	33	13	(7)	(26)	(45)	(64)	(82)	(99)	(117)	(133)	(150)
50% variance	106	94	82	71	59	48	37	27	16	6	(4)	(13)	(23)	(32)	(41)	(50)	(58)	(67)	(75)
2007 PV $M																			
Bruce Total	1,711	1,677	1,644	1,612	1,581	1,550	1,521	1,491	1,463	1,435	1,408	1,381	1,355	1,329	1,304	1,280	1,256	1,233	1,210
Bruce A	838	821	805	790	774	760	745	731	717	703	690	677	664	652	640	628	616	605	594
Bruce B	873	856	839	823	807	791	776	761	746	732	718	704	691	677	665	652	640	628	616

	Actual CPI	real discount	discount rate	discount indices
2001	3.10%	3.25%	6.35%	1.06
2002	2.00%	3.25%	5.25%	1.05
2003	2.70%	3.25%	5.95%	1.06
2004	1.90%	3.25%	5.15%	1.05
2005	2.20%	3.25%	5.45%	1.05
2006*	1.90%	3.25%	5.15%	1.05

*projected

	Guarantee requirements										
2006	14.78										
2007	30.33										
2008	46.67										
2009	63.85										
2010	81.92										
2011	100.92										
2012	120.90										
2013	141.90										
2014	163.99										
2015	187.22										
2016	211.64										
2017	237.32										
2018	264.32	234	205	176	148	120	93	67	41	16	(9)
2019	246.15										
2020	226.19										
2021	204.29										
2022	180.35										
2023	154.22										
2024	125.76										
2025	94.84										
2026	61.27										
2027	24.91										
2028	-14.43										