

**Board Staff Interrogatory #137**

**Ref:** Ex. H1-T1-S1, pages 1-3, Table 1 and Ex. A2-T1-S1, Attachment 3, page 20

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Table 1 shows Grand Totals of \$629.1 M in 2009 and \$579.1 M in 2008 for deferral and variance account balances whereas OPG's consolidated financial statements for Prescribed Assets (ExhA2-1-1 Attachment3/p20) show net regulatory assets and liabilities recorded by Prescribed Facilities of \$796 M for 2009 and \$468 M for 2008.

- a) Please state whether or not OPG is of the view that the 2008 and 2009 grand total amount of account balances in Table 1 claimed for disposition should agree to the amounts shown for 2008 and 2009 in the consolidated financial statements. If not, please explain why not.
- b) Please explain the differences between the amounts shown in the two above-noted references for 2009 and 2008 and provide a reconciliation of the differences.

**Response**

- a) No, the grand total amount of account balances in Ex. H1-T1-S1, Table 1 for 2008 and 2009 should not agree to the total amount of net regulatory assets shown in the consolidated financial statements for Prescribed Assets for the respective years.

The amounts in Ex. H1-T1-S1 are presented in the periods to which they relate and include only variance and deferral accounts that are established by the OEB. The amounts in the financial statements are presented in the periods in which they are recognized for accounting purposes and include regulatory assets and liabilities that are recognized as a result of accounting requirements rather than as a result of being required by the OEB. The main sources of differences are identified in part b).

- b) The requested reconciliation is presented in Chart 1 below.

**Chart 1**  
**Reconciliation of Variance and Deferral Account Balances to Financial Statements**  
**As At December 31, 2008 and 2009**

	Dec. 31 2008 (\$M)	Dec. 31 2009 (\$M)	Notes
<b>Net regulatory assets per Financial Statements</b>	<b>468</b>	<b>796</b>	Ex. A2-T1-S1, Attachment 3, Note 6 to the financial statements for Prescribed Assets
Remove Regulatory Asset for Future Income Taxes	-	(163.8)	Regulatory asset for future income taxes is recognized effective January 1, 2009 for accounting purposes only, as per Notes 3, 6 and 10 to the financial statements for Prescribed Assets (Ex. A2-T1-S1, Attachment 3)
Tax Loss Variance Account amount for 2008 booked in 2009	126.1	-	Total Tax Loss Variance Account balance for 2008 and 2009 was recognized in 2009 for accounting purposes when the EB-2009-0038 Decision and Order was issued. Amount for 2008 is presented as part of 2008 balance in Ex. H1-T1-S1. Refer to Ex. L-12-041.
Income and Other Taxes Variance Account amount for 2008 booked in 2009	(12.1)	-	Amount of this variance account for 2008 activity was recognized in 2009 for financial accounting purposes. The 2008 amount (excl. interest) is found at Ex. H1-T1-S1, Table 13, column (a). Difference is due to interest.
Other timing differences	(2.9)	(3.1)	Reconciliation adjustments in 2009 pertaining to 2008, and difference due to rounding
<b>Ex. H1-T1-S1, Table 1</b>	<b>579.1</b>	<b>629.1</b>	

**Board Staff Interrogatory #138**

**Ref:** Ex. H1-T1-S1, pages 3-4, Table 3

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Table 3 shows the balances for the Ancillary Services Net Revenue – Hydroelectric variance account. Please provide a breakdown of amounts for each ancillary service (e.g., operating reserve, reactive support/voltage control service, automatic generation control and black start capability) by year.

**Response**

In Charts 1 and 2 below, OPG provides a breakdown of the forecast and actual regulated hydroelectric ancillary services net revenues shown in Ex. H1-T1-S1, Table 3, lines 1 and 2 for the period 2008 – 2010.

In Chart 1, the amounts for April – December 2008 and for 2009 represent the amounts that underpin OPG's regulated hydroelectric payment amounts approved in EB-2007-0905, while the amount for 2010 is computed in accordance with EB-2009-0174. As approved in EB-2009-0174, the January - March 2010 values are assumed to equal the January - March 2009 values that underpin the existing payment amounts, and the April - December 2010 values are the average of the values for this same period in 2008 and 2009 that underpin the payment amounts.

For January - March 2008 no break-down is available as the regulated hydroelectric ancillary services revenue information provided to the Province for purposes of setting the interim payment amounts was aggregate data only.

In Chart 2, the amounts shown represent the actual amounts for 2008 and 2009, and the budgeted amounts for 2010. The actual amounts for 2008 and 2009, on an annual basis, and the budgeted amounts for 2010 are also presented in Ex. G1-T1-S2, Table 1, lines 5 and 9, columns (a) and (c).

In preparing this response, OPG identified an incorrect amount presented for the 2009 budget in Ex. G1-T1-S2, Table 1, line 5, column (e). This amount for 2009, which underpins the payment amounts, should be \$33.1M (the same as the amount in Ex. H1-T1-S1, Table 3, line 1, column (c)). This is a presentation error in the Exhibit G tables only and does not

impact the calculated variance and deferral account balances or the proposed hydroelectric rider.

**Chart 1**

**Ex. H1-T1-S1, Table 3, Line 1 Forecast Revenue by Type of Ancillary Service (\$M)<sup>1</sup>**

Ancillary Service	Jan-Mar 2008	Apr-Dec 2008	2009	2010
Operating Reserve	N/A	0.8	1.2	1.2
Reactive Support/ Voltage Control Service	N/A	1.5	2.1	2.0
Automatic Generation Control	N/A	21.7	29.4	29.2
Black Start Capability	N/A	0.3	0.4	0.4
Total	10.2	24.3	33.1	32.9

**Chart 2**

**Ex. H1-T1-S1, Table 3, Line 2 Actual Revenue by Type of Ancillary Service (\$M)<sup>1</sup>**

Ancillary Service	Jan-Mar 2008	Apr-Dec 2008	2009	2010
Operating Reserve	0.7	4.7	7.5	6.9
Reactive Support/ Voltage Control Service	0.0	0.4	0.3	0.3
Automatic Generation Control	9.9	25.1	34.3	31.4
Black Start Capability	0.1	0.3	0.4	0.4
Total	10.7	30.5	42.5	39.1

<sup>1</sup> Amounts may not add due to rounding

**Board Staff Interrogatory #139**

**Ref:** Ex. H1-T1-S1, pages 4-5, Table 13

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

OPG indicates that the results of a tax audit is a credit back to ratepayers for Investment Tax Credits based on expenditures that qualify as Scientific Research and Experimental Development ("SR&ED") activities, which were recorded in the Income and Other Taxes Variance Account. Were the SR&ED activities related to only regulated activities? If no, please explain the basis on which the investment tax credits were allocated to regulated and non-regulated activities.

**Response**

While OPG conducts both regulated and unregulated SR&ED activities, the entries into the Income and Other Taxes Variance Account for SR&ED Investment Tax Credits pertain only to the regulated activities.

The majority of SR&ED qualifying projects and related expenditures are tracked within each business unit and they are therefore directly identified as regulated or unregulated. Certain SR&ED activities are also conducted by OPG's Business Services and Information Technology ("BS&IT") corporate function. These activities are allocated to the nuclear and regulated hydroelectric business units in the same proportion as the total BS&IT expenses are allocated to these business units per the cost allocation methodology outlined in Ex. F3-T1-S1.

**Board Staff Interrogatory #140**

**Ref:** Ex. H1-T1-S1, page 10 and Table 11

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

The derivation of Hydroelectric Deferral and Variance Over/Under Recovery Variance Account balance in Table 11 (lines 3&7) show Hydroelectric Actual Production of 19.3 TWh for 2010.

- a) Is the production of 19.3 TWh actual or forecast?
- b) Please indicate how the production amount shown in lines 3 and 7 was derived.

**Response**

- a) The 2010 production value of 19.3 TWh is forecast.
- b) In Ex. H1-T1-S1, Table 11, lines 2 and 7 should have been labelled "Hydroelectric Production (actual value for 2008/2009 and forecast value for 2010)". Line 7 in Ex. H1-T1-S1, Table 11 is the 2010 production forecast (same as line 17, column c) in Ex. E1-T1-S2, Table 1). A description of the hydroelectric production forecast methodology is provided in Ex. E1-T1-S1.

Line 3 in Ex. H1-T1-S1, Table 11 is the difference between forecast and actual production values for 2008 and 2009. The values for 2009 correspond to the 2009 forecast and actual production values in Ex. E1-T1-S2, Table 1, line 10, columns e and c respectively. The values for 2008 correspond to the portion of the 2008 forecast and actual production values over which the rider was to be applied (i.e., the month of December). The forecast values for December 2008 and year 2009 were approved by the OEB in its EB-2007-0905 Decision (Appendix E, Table 1, lines 6 and 7).

**Board Staff Interrogatory #141**

**Ref:** Ex. H1-T1-S1, page 14 and Table 10

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Table 10 shows a summary of amounts recorded in the Bruce Lease Net Revenues Variance Account including Actual Production (TWh) at line 6 for the years 2008 to 2010.

- a) Please provide the source of the actual production for Bruce facilities production shown in line 5.
- b) Were the actual production amounts for Bruce facilities for the years 2008 to 2009 in line 5 verified by OPG's external auditors?

**Response**

a) and b)

The questions appear to be based on a premise that Actual Production in Ex. H1-T1-S1, Table 10 at line 5 refers to production by the facilities on lease to Bruce Power. This is not correct.

The Actual Production shown in Table 10 is that of OPG's nuclear facilities. As described in Ex. H1-T1-S1, section 6.7, OPG computed the amount, per forecast TWh, of Bruce lease net revenues included in the revenue requirement approved in EB-2007-0905. OPG then multiplies this amount by the actual production (and forecast for 2010) of OPG's nuclear facilities (i.e., line 5 of Table 10 referenced in the questions) to determine the actual amount of Bruce lease net revenues credited to customers through the current nuclear payment amounts. This result is then compared to the actual Bruce lease net revenues realized by OPG based on GAAP. The difference between these two numbers results in the amount of variance recorded in the Bruce Lease Net Revenues Variance Account.

**Board Staff Interrogatory #142**

**Ref:** Ex. H1-T1-S1, Table 10a

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Table 10a shows the details for the Bruce Lease Net Revenues Variance Account including amounts for (Earnings) Losses on Segregated Funds in line 8.

- a) Please explain the basis upon which the overall amounts for the (Earnings) Losses on Segregated Funds are allocated between Bruce and OPG's prescribed nuclear facilities.
- b) On what basis are the Earnings on Segregated Funds of \$268.8 M for 2010 determined?
- c) Given the market volatility for investments, why should any reliance be placed on the 2010 forecast of Earnings on Segregated Funds of \$268.8 M?

**Response**

- a) As discussed in Ex. G2-T2-S1, page 11 the overall earnings (losses) on segregated funds are allocated to the Bruce stations based on the notional opening fund balances related to these stations adjusted for segregated fund contributions based on the Ontario Nuclear Funds Agreement ("ONFA") and a forecast of fund disbursements based on the cost estimates in accordance with the current approved ONFA Reference Plan. The method of allocation was reviewed by an external consultant, Black & Veatch, as part of their overall review of the allocation methodology for revenues and costs to Bruce Facilities (Ex. F5-T2-S1, pages 16-18). Black and Veatch concluded that "the methodology is appropriate and properly reflects the costs OPG incurs and revenues it realizes" (see Ex. F5-T2-S1, page 18).
- b) The forecast of earnings on the segregated funds related to Bruce stations for 2010 are determined based on the notional opening 2010 balance of the funds attributed to Bruce of \$5,187.2M, adjusted for contributions of \$113.9M and disbursements of \$47.3M (assumed to take place evenly throughout the year), and an assumed rate of return on the funds of 5.15 per cent as per the Ontario Nuclear Funds Agreement. Exhibit C2-T1-S2, Table 2, line 15, column (c) presents the amount of forecast earnings for 2010, and lines 14, 16 and 17 present the opening balance, contributions and disbursements, respectively.



- 1 c) OPG's forecast of earnings on the segregated funds was based on the long-run
- 2 performance target for the funds of 5.15 per cent. In OPG's view, this target is reasonable
- 3 for planning purposes as the asset mix of the funds is determined with a view of
- 4 achieving this target rate.
- 5
- 6 OPG will be updating its deferral and variance account balances later in the proceeding
- 7 to reflect actual experience during 2010.

**Board Staff Interrogatory #143**

**Ref:** Ex. H1-T1-S1, Table 10a

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Table 10a shows separate amounts for Bruce Lease Net Revenue for Jan 1 to Mar 31 of \$(33) M and Apr 1 to Dec 31 of \$(179.9) M in 2008. The Jan.1 to Mar. 31 (stub) period amounts are not recorded in the account as the account came into effective on Apr 1, 2008.

- a) Please explain how the amounts in the Apr 1 to Dec 31, 2008 nine-month period were derived for each line item including the basis of allocations for this nine-month period as compared to the three-month period of the Jan.1 to Mar. 31, 2008.
- b) Using the same table format of Table 10a, please provide the monthly amounts for each of the line items (i.e., lines 1 to 14) for the period from Jan to Dec 2008 (in tabular format of 12 columns representing the 12 months of 2008).
- c) Did OPG's external auditors verify the information in Table 10a?

**Response**

- a) The amounts for the nine-month period April 1, 2008 to December 31, 2008 were derived as follows (line number refers to corresponding lines in Ex. H1-T1-S1, Table 10a:

Line	Item	Method of Derivation
1	Lease Revenue	Actual monthly revenue per accounting records
2	Services Revenue	Actual monthly revenue per accounting records (Note 5)
4	Depreciation	Actual monthly expense amount per accounting records (Note 1)
5	Property Tax	Actual monthly expense amount per accounting records
6	Capital Tax	Actual monthly expense amount per accounting records (Note 1)
7	Accretion	Actual monthly expense amount per accounting records (Notes 1, 2)
8	(Earnings) Losses on Segregated Funds	Actual monthly amount per accounting records (Note 3)

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9	Used Fuel Storage and Disposal	Actual monthly expense amount per accounting records (Notes 1, 2)
10	Waste Management Variable Expenses	Application of proportion of 9/12 to actual annual amount per accounting records (Notes 1, 2)
11	Interest	Application of proportion of 9/12 to actual annual expense amount per accounting records (Note 4)
12	Income Tax	Calculated based on actual taxable income for the nine months Apr-Dec 2008 in Ex. G2-T2-S1, Table 6, Column (a).

Notes:

- (1) Amounts exclude impact of entries into the Nuclear Liability Deferral Account during Q1 2008.
- (2) Allocation of OPG's total expenses related to nuclear liabilities to Bruce is discussed in Ex. G2-T2-S1, pages 10-11; Ex. C2-T1-S2, Sections 3.1 and 3.3; Ex. L-1-130.
- (3) Allocation of OPG's total (earnings) losses on segregated funds to Bruce is discussed in Ex. G2-T2-S1, page 11 and Ex. L-1-142.
- (4) Allocation of OPG's total interest expense to Bruce is discussed in Ex. G2-T2-S1, page 12.
- (5) Due to their small magnitude, variances for revenues related to Cobalt-60 and Site Services revenue are computed and recorded in the Bruce Lease Net Revenues Variance Account at the end of the year rather than on a monthly basis.

b) Refer to Table 1 in Attachment 1.

OPG notes that the following amounts in Ex. H1-T1-S1, Table 10a for January 1 to March 31, 2008 should be corrected to reflect proper classification as follows:

- Line no. 1 "Lease Revenue" – \$64.4M
- Line no. 2 "Services Revenue" – \$2.7M
- Line no. 4 "Depreciation" – \$15.3M
- Line no. 10 "Waste Management Variable Expenses" – \$0.9M

The amount of Total Bruce Revenue (line no. 3) and the amount of Total Costs (line no. 13) are unaffected.

OPG notes that the following amounts in Ex. H1-T1-S1, Table 10a for April 1 to December 31, 2008 should be corrected to reflect proper classification as follows:

- Line no. 1 "Lease Revenue" – \$193.5M
- Line no. 2 "Services Revenue" – \$6.3M
- Line no. 4 "Depreciation" – \$45.7M
- Line no. 10 "Waste Management Variable Expenses" – \$2.7M

The amount of Total Bruce Revenue (line no. 3) and the amount of Total Costs (line no. 13) are unaffected.

1 The above corrections are for presentation purposes only and do not impact the entries  
2 into, or balance of the Bruce Lease Net Revenue Variance Account.

- 3  
4 c) OPG's external auditors examined the derivation and balance of the Bruce Lease Net  
5 Revenues Variance account as part of their overall audit of OPG's company-wide and  
6 prescribed facilities' financial statements. The information in Ex. H1-T1-S1, Table 10a  
7 underlies the calculation of the entries into the account during 2008. The auditors  
8 expressed an unqualified opinion on the overall compliance of OPG's 2008 and 2009  
9 financial statements (Ex. A2-T1-S1, Attachments 1, 2, 3) with Generally Accepted  
10 Accounting Principles ("GAAP").  
11

12 The method of allocation of costs and revenues related to Bruce assets was also  
13 reviewed by an external consultant, Black & Veatch (Ex. F5-T2-S1, pages 16-18). Black  
14 & Veatch found (see Ex. F5-T2-S1, page 18) that "the methodology is appropriate and  
15 properly reflects the costs OPG incurs and revenues it realizes."

Numbers may not add due to rounding.

Table 1  
Monthly Breakdown of Bruce Lease Net Revenue - Actual 2008<sup>1</sup>

Line No.	Account	January	February	March	April	May	June	July	August	September	October	November	December	Total
	<b>Revenue:</b>													
1	Lease Revenue	21.1	21.8	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	22.1	258.1
2	Services Revenue	0.2	0.4	2.1	1.1	0.7	1.0	0.8	0.6	0.4	0.5	0.6	1.9	10.4
3	<b>Total Bruce Revenue</b>	<b>21.3</b>	<b>22.2</b>	<b>23.6</b>	<b>22.6</b>	<b>22.2</b>	<b>22.5</b>	<b>22.3</b>	<b>22.1</b>	<b>21.9</b>	<b>22.0</b>	<b>22.1</b>	<b>24.0</b>	<b>268.5</b>
	<b>Costs:</b>													
4	Depreciation	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	61.0
5	Property Tax	1.3	1.3	(15.6)	1.3	1.3	1.3	1.3	1.3	1.3	1.5	1.5	1.5	(1.0)
6	Capital Tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.6
7	Accretion	22.2	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	267.4
8	(Earnings) Losses on Segregated Funds	63.6	(18.1)	(23.8)	(63.8)	(39.7)	49.2	(4.5)	(55.7)	140.4	109.7	33.6	(7.0)	183.9
9	Used Fuel Storage and Disposal	1.2	0.9	1.1	1.3	1.0	1.1	1.4	1.2	1.1	1.1	1.1	1.4	14.0
10	Waste Management Variable Expenses	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.6
11	Interest	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	19.3
12	Income Tax	0.0	0.0	0.0	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(70.1)
13	<b>Total Costs</b>	<b>95.6</b>	<b>13.7</b>	<b>(8.7)</b>	<b>(39.4)</b>	<b>(15.6)</b>	<b>73.4</b>	<b>20.0</b>	<b>(31.4)</b>	<b>164.6</b>	<b>134.1</b>	<b>58.0</b>	<b>17.7</b>	<b>481.7</b>
14	<b>Bruce Lease Net Revenue (line 3 - line 13)</b>	<b>(74.3)</b>	<b>8.5</b>	<b>32.3</b>	<b>62.0</b>	<b>37.8</b>	<b>(50.9)</b>	<b>2.3</b>	<b>53.5</b>	<b>(142.7)</b>	<b>(112.1)</b>	<b>(35.9)</b>	<b>6.3</b>	<b>(213.2)</b>

Notes:

- 1 Sum of amounts for January to March may not add to the total presented in Ex. H1-T1-S1, Table 10a, Col. "Jan 1 - Mar 31 2008" due to rounding.  
Sum of amounts for April to December may not add to the total presented in Ex. H1-T1-S1, Table 10a, Col. "Apr 1 - Dec 31 2008" due to rounding.

**Board Staff Interrogatory #144**

**Ref:** Ex. H1-T1-S1, pages 6-8, Tax Loss Variance Account

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

The methodology established in EB-2007-0905 was to examine each year or part of a year in isolation in order to determine the period in which regulatory tax loss carry-forwards would be fully utilized.

According to the evidence shown in EB-2010-0008, ExhF4/Tab2/Sch1/Table6, OPG became taxable for regulatory purposes after 2008, some time around mid-year 2009. Therefore, there should be no gross-up for tax on tax related to any variances that arose with respect to the nine-month test period ended December 31, 2008.

Please explain why OPG made all adjustments subject to tax in the information provided at ExhH1/Tab1/Sch1/Page7.

**Response**

The question is based on an incorrect premise. The premise that since OPG became taxable for regulatory purposes during mid-year 2009, on the basis of actual regulatory tax calculations for 2008 and 2009 filed in Ex. F4-T2-S1, Table 6, then there should be no gross-up for tax on any variances that arose with respect to the nine-month test period ended December 31, 2008 is not correct.

OPG's actual regulatory income taxes for the period April 1, 2008 – December 31, 2009 are not relevant to the calculation of entries in the Tax Loss Variance Account for 2008 and 2009. This account is intended to correct the revenue requirement reductions inappropriately made in EB-2007-0905 and, as such, the entries need to be calculated in a consistent manner with the revenue requirement, which was on a forecast basis. Use of a forecast tax amount is consistent with this approach.

The purpose of the calculation at Ex. H1-T1-S1, page 7 is to identify the amount by which OPG's revenue requirement established by EB-2007-0905 was inappropriately reduced as a result of that decision. The OEB's Decision in EB-2007-0905 resulted in a reduction to OPG's revenue requirement of \$168.7M (i.e., 22 per cent of the deficiency) and \$66.0M in foregone forecast tax expense for the 2008 – 2009 test period, as calculated in Ex. F4-T2-S1, Table 9. If the total of these two amounts, \$234.7M, had been included in the revenue requirement, it would result in higher regulatory earnings before tax and, hence, a higher tax expense that

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1 would have also been included for recovery in the revenue requirement. The amount of the  
2 tax expense associated with the additional \$234.7M of revenue requirement is calculated on  
3 a grossed-up basis at page 7, as is the standard regulatory practice when calculating the tax  
4 expense for recovery from ratepayers, and is \$106.5M. This brings the total revenue  
5 requirement reduction imposed by the OEB's Decision in EB-2007-0905 to \$341.2M.

**Board Staff Interrogatory #145**

**Ref:** Ex. H1-T1-S1, Table 4 - Tax Loss Variance Account

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

On line 6 of the upper table OPG has prorated the 21-month 2008-2009 test year revenue requirement reduction of \$341.2 million to derive a 12-month amount for 2010 of \$195 million.

- a) Why has OPG assumed that there is a linear relationship between 2010 and the prior test period?
- b) Why did OPG not use actual regulatory profit for 2008, 2009 and first quarter 2010 to forecast 2010 whole year?

**Response**

The amount on line 6 of the upper table in Ex. H1-T1-S1, Table 4 is not a forecast tax amount for 2010, and therefore does not assume a linear relationship between forecast 2010 tax amounts and the prior test period tax amounts. The amounts on lines 4-6 represent OPG's calculation of the amount by which its revenues have been inappropriately reduced for years 2008 – 2010 as a result of the Decision and Payment Amounts Order in EB-2007-0905.

These amounts are entries into the Tax Loss Variance Account, which was established by the OEB in EB-2009-0038 to record the difference between the mitigation amount imposed by the OEB in EB-2007-0905 that underpins the current payment amounts and the revenue requirement impact of the tax loss amount resulting from the re-analysis of the prior period tax returns based on the OEB's directions in the Payments Amounts Decision (EB-2007-0905).

- a) There is a linear relationship between 2010 and the prior test period because the payment amounts approved in EB-2007-0905 and the Tax Loss Variance Account approved in EB-2009-0038 continue into 2010. Since the payment amounts continue into 2010, OPG has used the same revenue requirement reduction calculated for the 21-month 2008 – 2009 test period, appropriately prorated to reflect the 12-month period in 2010, to ensure that the entries in the Tax Loss Variance Account for 2010 are correctly calculated and are consistent with the OEB's Decision in EB-2009-0038.



- 1 b) The actual (or projected) amount of regulatory taxes for 2010 bears no relationship to the  
2 Tax Loss Variance Account entries. The entries in this account are the difference  
3 between the mitigation amount imposed by the OEB in EB-2007-0905 that underpins the  
4 current payment amounts, which OPG continues to receive in 2010, and the revenue  
5 requirement impact of the tax loss amount resulting from the re-analysis of the prior  
6 period tax returns based on the OEB's directions in the Payments Amounts Decision (EB-  
7 2007-0905).

**CME Interrogatory #030**

**Ref:** Ex. F4-T2-S1, Attachment 3  
Ex. G2-T2-S1  
Ex. H1-T2-S1

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Please indicate, year by year, the amounts for taxes in each of the years 2005 to 2009, inclusive, that OPG now seeks to recover through the Tax Loss Variance Account?

**Response**

The Tax Loss Variance Account was established by the OEB in EB-2009-0038 effective April 1, 2008, and as such no entries were made into the account pertaining to the period prior to that date.

OPG notes that only a portion of the Tax Loss Variance Account pertains to taxes. The entries in the account represent the difference between the revenue requirement reduction inappropriately imposed by the OEB in EB-2007-0905 and the amount of mitigation that is available in the form of regulatory tax losses for the period from April 1, 2005 – March 31, 2008. The non-tax portion for 2008 – 2009 is \$168.7M (Ex. H1-T1-S1, page 7), which represents the revenue requirement reduction of 22 per cent of the revenue deficiency ordered by the OEB in EB-2007-0905.

The tax portion consists of:

- The recovery of foregone regulatory income taxes (grossed-up, as discussed in Ex. L-1-144) that were inappropriately excluded in the calculation of the approved revenue requirement in EB-2007-0905 less the reduction in these taxes (grossed-up, as discussed in Ex. L-1-144) resulting from the carry-forward of recalculated regulatory tax losses.
- The additional regulatory income taxes (grossed up, as discussed in Ex. L-1-144) that would have arisen had the revenue requirement not been inappropriately reduced by \$168.7M discussed above.

The amount of taxes for each of the years 2008 and 2009 pertaining to item #1 above is computed as follows:

**April 1, 2008 – December 31, 2008:           \$33.1M (A)**

(Foregone taxes + associated gross-up = \$54.7M per Ex. L-1-117, Table 1, Note 2, line 2. \$54.7M less 9/21 x \$50.3M (Ex. H1-T1-S1, page 7 for recalculated tax losses) = \$33.1M.)

**January 1, 2009 – December 31, 2009:       \$12.6M (B)**

(Foregone taxes + associated gross-up = \$41.3M per Ex. L-1-117, Table 1, Note 2, line 2. \$41.3M less 12/21 x \$50.3M (Ex. H1-T1-S1, page 7 for recalculated tax losses) = \$12.6M.)

The amount of taxes for each of the years 2008 and 2009 pertaining to item #2 above is as follows:

**April 1, 2008 – December 31, 2008:           \$33.2M (A)**

(Ex. L-1-117, Table 1, Note 2, line 4)

**January 1, 2009 – December 31, 2009:       \$43.3M (B)**

(Ex. L-1-117, Table 1, Note 2, line 4)

Therefore, the total amount of taxes that OPG seeks to recovery for 2008 and 2009 through the operation of the Tax Loss Variance Account is as follows:

**April 1, 2008 – December 31, 2008:           \$66.3M (Sum of (A))**

**January 1, 2009 – December 31, 2009:       \$55.9M (Sum of (B))**

**CME Interrogatory #031**

**Ref:** Ex. F4-T2-S1, Attachment 3  
Ex. G2-T2-S1  
Ex. H1-T2-S1

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

For each of the years 2005 to 2009, inclusive, please indicate, year by year, what further amounts for taxes, if any, OPG has either already recovered or now seeks to recover through the Bruce Lease Net Revenues Variance Account for taxes related to Bruce revenues and expenses.

**Response**

The Bruce Lease Net Revenues Variance Account was established by the OEB in EB-2007-0905 effective April 1, 2008, and as such no entries were made into the account prior to that date.

The requested information is provided in the table below. The amounts recovered for April 1, 2008 – December 31, 2009 are the forecast amounts reflected in the EB-2007-0905 Payment Amounts Order ("PAO"), Appendix A, Table 7, lines 5 (property tax), 6 (capital tax) and 9 (income tax)<sup>1</sup>. The corresponding actual amounts are provided in Ex. H1-T1-S1, Table 10a, lines 5, 6 and 12, respectively. The difference between the amounts forecast in the payment amounts and the actual amounts for taxes is a credit to ratepayers of (\$133.5M), included as part of the balance of the Bruce Lease Net Revenue Variance Account.

Bruce Tax Item (\$M)	Annual 2008 per PAO	2008 Apr-Dec per PAO <sup>2</sup>	2008 Apr-Dec Actual	2008 Apr-Dec Variance	2009 per PAO	2009 Actual	2009 Variance
Property	15.2	11.4	12.1	(0.7)	15.5	12.9	2.6
Capital	4.4	3.3	2.7	0.6	3.6	3.4	0.2
Income	37.7	28.3	(70.1)	98.4	37.7	5.3	32.4
Total		43.0	(55.3)	<b>98.3</b>	56.8	21.6	<b>35.2</b>

<sup>1</sup> Differences between forecast and actual nuclear production impact what is actually recovered from customers, and therefore affect the amount recorded in the Bruce Lease Net Revenue Variance Account. This impact is not considered in this response as the production adjustment is calculated on the total variance, not for individual revenue or cost item differences.

<sup>2</sup> Represents a pro-rata by 9/12 of annual 2008 amounts per Payment Amounts Order.

Witness Panel: Deferral and Variance Accounts, Payment Amounts and Regulatory Treatments

**CME Interrogatory #034**

**Ref:** Ex. F4-T2-S1, Attachment 3  
Ex. G2-T2-S1  
Ex. H1-T2-S1

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

What amount is OPG now seeking to recover from ratepayers for taxes in 2010 through the operation of the Tax Loss Variance Account?

**Response**

OPG is seeking to recover \$98.6M as the tax component of the Tax Loss Variance Account entry in 2010. This amount represents a 12-month proration of the 21-month amounts for 2008 – 2009 of \$66M of foregone tax and \$106.5M of tax on both the foregone tax of \$66M and the mitigation amount of \$168.7M (these amounts are found in Ex. H1-T1-S1, page 7). The calculation is therefore:  $(\$66M + \$106.5M) * 12 / 21 = \$98.6M$ .

The calculation of the total Tax Loss Variance Account entry for 2010 is also discussed in Ex. L-1-145.

**CME Interrogatory #035**

**Ref:** Ex. F4-T2-S1, Attachment 3  
Ex. G2-T2-S1  
Ex. H1-T2-S1

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

What amount is OPG now seeking to recover from ratepayers for taxes in 2010 through the operation of the Bruce Lease Net Revenues Variance Account?

**Response**

The requested information is provided in the table below. The amounts recovered for 2010 are based on the forecast amounts for April 1, 2008 – December 31, 2009 reflected in the EB-2007-0905 Payment Amounts Order ("PAO"), Appendix A, Table 7, line 5 (property tax), line 6 (capital tax) and line 9 (income tax)<sup>1</sup>. These forecast amounts for the 21-month test period are prorated over 12 months to determine the 2010 Bruce tax expense reflected in current payment amounts. The corresponding actual amounts forecast for 2010 are provided in Ex. H1-T1-S1, Table 10a, lines 5, 6 and 12, respectively. The difference between the amounts forecast in the payment amounts and the current 2010 forecast amounts for taxes is a credit to ratepayers of (\$4.2M). This credit is included as part of the 2010 forecast additions to the Bruce Lease Net Revenue Variance Account.

Bruce Tax Item (\$M)	Annual 2008 per PAO	2008 Apr-Dec per PAO <sup>2</sup>	Annual 2009 per PAO	2010 Prorated	2010 Forecast	2010 Variance
Property	15.2	11.4	15.5	15.4	13.1	2.3
Capital	4.4	3.3	3.6	3.9	1.1	2.8
Income	37.7	28.3	37.7	37.7	38.6	(0.9)
Total		43.0	56.8	57.0	52.8	4.2

<sup>1</sup> Differences between forecast and actual nuclear production impact that is actually recovered from customers, and therefore affect the amount recorded in the Bruce Lease Net Revenue Variance Account. This impact is not considered in this response as the production adjustment is calculated on the total variance, not for individual revenue or cost item differences.

<sup>2</sup> Represents a pro-ratio by 9/12 of annual 2008 amounts per Payment Amounts Order.

Witness Panel: Deferral and Variance Accounts, Payment Amounts and Regulatory Treatments

**CME Interrogatory #037**

**Ref:** Ex. F4-T2-S1, Attachment 3  
Ex. G2-T2-S1  
Ex. H1-T2-S1

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

If in any year the amount of taxes OPG, the corporation, actually pays to Ontario is exceeded by the amount of taxes OPG has either already collected during that year or proposes to collect from ratepayers later through the operation of the Tax Loss Variance Account and/or the Bruce Lease Net Revenues Variance Account, then please explain how the recovery from ratepayers of amounts for taxes that exceed the actual amounts paid by the corporation will be recorded in OPG's corporate financial statements. Will the excess amounts operate to produce an incremental return on equity?

**Response**

OPG makes payments in lieu of income, capital and property tax to the Ontario Electricity Financial Corporation ("OEFC") and property tax payment to municipalities.

The amount of actual taxes OPG pays and the amount of taxes that OPG recovers from ratepayers is not a meaningful comparison for the purposes of determining accounting treatment in OPG's financial statements. The taxes paid by OPG are recorded either as a reduction to a liability on the balance sheet or an increase in an expense on the income statement. The amount recovered from ratepayers forms part of OPG's revenues and, in the case of variance account recovery, is also recorded as amortization expense of regulatory balances on OPG's income statement. The accounting for taxes paid and amounts recovered through rates is, therefore, not related.

The difference between tax amounts paid by OPG and amounts recovered for taxes from ratepayers is not a determinant of return on equity, and hence the "excess" referenced in the question does not operate to produce an incremental return on equity.

**PWU Interrogatory #024**

**Ref:** Ex. H1-T2-S1, page 1, lines 20-23. The evidence states:

OPG is proposing to clear the 2010 projected 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, which is a determined, not forecast amount.

**Issue Number: 10.2**

**Issue:** Are the balances for recovery in each of the deferral and variance accounts appropriate?

**Interrogatory**

Please provide the impact on the proposed total balance to be cleared, and the associated ratepayer impact, of using the 2009 actual balances adjusted only for the amortization approved in EB-2009-0174 and the determined addition to the Tax Loss Variance Account, but excluding any other forecasted balance changes in 2010.

**Response**

The requested impact on the total proposed balance to be cleared, expressed as the total test period recovery amount, and the associated ratepayer impact, expressed as rate riders, for each of regulated hydroelectric and nuclear are as follows:

	<b>Using 2009 Actual Balances, Adj. for 2010 Amortization and 2010 Tax Loss Variance Account Entries<sup>1</sup></b>	<b>As Proposed by OPG</b>
Reg. Hydro Test Period Recovery Amount (\$M)	(36.1)	(86.8)
Nuclear Test Period Recovery Amount (\$M)	497.0	459.9
Reg. Hydro Rate Rider (\$/MWh)	(1.02)	(2.46)
Nuclear Rate Rider (\$/MWh)	5.51	5.09

<sup>1</sup> Amortization for 2010 has been calculated over the remaining recovery period based on the OEB's decisions and orders for EB-2007-0905 and EB-2009-0174. For the Pickering A Return To Service Deferral Account, which has an authorized recovery period of 45-months ending beyond December 31, 2010, amortization for January and February 2011 has also been adjusted out. "Determined addition" to the Tax Loss Variance Account for 2010 is the total additions to the account (including interest) shown in Ex. H1-T1-S1, Table 1d, lines 4 and 17, columns (b), (c) and (d).