

1 **UNDERTAKING J11.5**

2
3 **Undertaking**

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5 To explain the total impact of Darlington refurbishment on 2010 numbers, and impact of
6 nuclear liabilities. With reference to Ex. D2-T2-S1, page 3, to include 2010 deferral
7 account numbers.

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9
10 **Response**

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12 This Undertaking essentially requests an augmented response to Interrogatory L-14-035
13 (Issue 8.2) to provide:

- 14 a) The impact of the Darlington Refurbishment project on the 2010 Nuclear budget in
15 the form presented in Ex. D2-T2-S1, Table 2.
16 b) The specific impact related to the prescribed facility nuclear liabilities.
17 c) That component of the impact that is captured in the Bruce Lease Net Revenues
18 Variance Account.

19
20 Each of these items is addressed separately below.

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22 However, before turning to these items, OPG wishes to clarify its original response to
23 Interrogatory L-14-035. In that response, OPG incorrectly describes the calculated
24 numbers as “revenue requirement impacts” when in fact they are impacts calculated with
25 reference to OPG’s 2010 budget amounts, as included in the 2010 - 2014 Business Plan
26 which underpins the current application. They are not revenue requirement impacts
27 since OPG does not have an approved 2010 revenue requirement. The revenue
28 requirement that actually underpinned the revenues that OPG was receiving in 2010 was
29 the revenue requirement approved in EB-2007-0905.

30
31 (a) Attachment 1, Table 1 provides the impact, relative to OPG’s 2010 budget, of the
32 Darlington Refurbishment project for 2010. OPG has used the same format as Ex.
33 D2-T2-S1, Table 2. Additional supporting calculations for the rate base calculations
34 are provided in Attachment 1, Table 1b in a form consistent with Ex. D2-T2-S1, Table
35 1. As noted above, OPG does not have an approved revenue requirement for 2010.
36 The impact of the Darlington Refurbishment project has been assessed as the
37 difference in the budget amounts for 2010 with and without the Darlington
38 Refurbishment project. These budget amounts are not, however, the values that
39 underpin the payment amounts that OPG received for the nuclear facilities in 2010.

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41 (b) The impact of the Darlington Refurbishment project associated with the prescribed
42 facility nuclear liabilities is provided Attachment 1, Table 1, lines 1 through 18,
43 excluding the following:

- 44 • Extension to Darlington Service Life Impacts on return on rate base (line 3) of
45 \$0.5M and depreciation (line 6) of (\$24.2M).
46 • Income Taxes related to the above items (lines 13 and 16) of (\$9.8M).
47 • Darlington Refurbishment Project OM&A (line 8) of \$5.5M.

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- 1 (c) The amount of the impact that will be reflected in the Bruce Lease Net Revenues
- 2 Variance Account is the total impact on the Bruce Facilities, forecast to be (\$28.2M),
- 3 less the impact on Prescribed Facilities' Income Tax Calculation (line 25), forecast to
- 4 be (\$8.2M). This amount will be a credit to customers.

Numbers may not add due to rounding.

Table 1¹
 Budget Impact of Darlington Refurbishment Project for 2010 (\$M)

Line No.	Description	Note or Reference	2010 Budget Impact
			(a)
	PRESCRIBED FACILITIES		
	<u>Return on Rate Base:</u>		
1	Accretion Rate on Lesser of ARC and UNL	Ex. J11.5, Att. 1, Table 1b, col. (f)	29.0
2	CWIP in Rate Base Impacts	N/A for 2010	0.0
3	Extension to Darlington Service Life Impacts	Ex. J11.5, Att. 1, Table 1b, col. (f)	0.5
4	Total Return on Rate Base Impact		29.5
	<u>Depreciation Expense:</u>		
5	Asset Retirement Costs	Ex. J11.5, Att. 1, Table 1b, col. (b)	(90.6)
6	Extension to Darlington Service Life Impacts	Ex. J11.5, Att. 1, Table 1b, col. (b)	(24.2)
7	Total Depreciation Expense Impact		(114.8)
	<u>Other Expenses:</u>		
8	Darlington Refurbishment Project OM&A	Ex. F2-T7-S1, Table 1, line 3, col (c)	5.5
9	Used Fuel Storage and Disposal Variable Expenses	Ex. L-14-035, Table 4, line 2, col (c)	3.5
10	Total Other Expenses		9.0
	<u>Income Taxes:</u>		
11	Accretion Rate on Lesser of ARC and UNL	Ex. J11.5, Att. 1, Table 1b, col. (g)	11.9
12	CWIP in Rate Base Impacts	N/A for 2010	0.0
13	Extension to Darlington Service Life Impacts	Ex. J11.5, Att. 1, Table 1b, col. (g)	0.1
14	Depreciation Expense on Asset Retirement Costs	Note 2	(37.0)
15	Used Fuel Storage and Disposal Variable Expenses	Note 2	1.4
16	Depreciation Expense on Darlington Service Life	Note 2	(9.9)
17	Total Income Tax Impact		(33.5)
18	Total Impact - Prescribed Facilities (line 4 + line 7 + line 10 + line 17)		(109.7)
	BRUCE FACILITIES		
19	Rate Base		0.0
20	Depreciation Expense Impact: Asset Retirement Costs	Ex. C2-T1-S2, Table 2, line 24, col. (c)-(b)	(20.1)
	<u>Other Expenses (Note 7):</u>		
21	Accretion	Ex. C2-T1-S2, Table 2, line 7, col. (b) less amount in Note 7	(9.5)
22	Used Fuel Storage and Disposal Variable Expenses	Ex. C2-T1-S2, Table 2, line 5, col. (b) less amount in Note 7	1.9
23	Total Other Expenses Impact		(7.6)
	<u>Income Taxes:</u>		
24	Impact on Bruce Facilities' Income Tax Calculation	Note 3, Note 4, Note 5	7.7
25	Impact on Prescribed Facilities' Income Tax Calculation	Note 6	(8.2)
26	Total Income Tax Impact		(0.4)
27	Total Impact - Bruce Facilities (line 19 + line 20 + line 23 + line 26)		(28.2)
28	Total Impact of Darlington Refurbishment Project (line 18 + line 27)		(137.9)

Notes:

- This table is a recasting of filed Ex. D2-T2-S1, page 3 (Chart 1) and Ex. D2-T2-S1, Table 2, to show 2010 amounts.
- Amounts impact regulatory income taxes as they represent non-deductible expenses for regulatory tax purposes. Regulatory income taxes are determined using the pre-tax non-deductible expense x tax rate / (1 - tax rate). The tax rate is 29% per Ex. F4-T2-S1, Table 5, line 31.
- Current Income Tax:
Depreciation, Accretion and Used Fuel Storage and Disposal Variable Expenses are not deductible for tax purposes. In determining taxable income for Bruce, the increase in Bruce earnings before tax is reduced by the non-deductible expenses; therefore there is no current tax impact.
- Future Income Taxes:
The non-deductible expenses represent temporary timing differences. The increase in net revenues resulting from these temporary timing differences will be taxed in the future. In accordance with GAAP, that increase in future tax is recognized in the test period.
- Tax Rate For Future Income Taxes:
The tax rate applicable to Depreciation Expense is 29%, which is the current tax rate for 2010 per Ex. G2-T2-S1, Table 7, line 34.
The tax rate of 25% applicable to Other Expenses is the long-term tax rate for 2010 as per Ex. G2-T2-S1, Table 7, line 38.
- Impact on Prescribed Facilities' Income Tax Calculation:
Changes in Bruce Lease Net Revenues impact regulatory earnings before tax and, therefore, regulatory taxable income of the prescribed facilities, as presented in Ex. F4-T2-S1, Table 5. The impact on prescribed facilities' income taxes is determined as: (line 19 + line 20 + line 23 + line 24) x tax rate / (1 - tax rate). The tax rate is 29% per Ex. F4-T2-S1, Table 5, line 31.
- "Without Darlington" numbers are derived from a base case calculation of Asset Retirement Obligation ("ARO") and Asset retirement Costs ("ARC") before the Darlington ARO adjustment. Accretion related to Bruce facilities is \$291.9M and Used Fuel Storage and Disposal Variable Expenses related to Bruce facilities is \$14.8M for 2010.

Numbers may not add due to rounding.

Table 1b¹
 Budget Impact of Darlington Refurbishment Project for 2010 (\$M)
 Notes to Ex. J11.5, Attachment 1, Table 1

Line No.	Description	Notes	Net Plant Opening Balance	Relative Change in Net Plant	(a)+(b) Closing Balance	((a)+(c))/2 Net Plant Rate Base Amount	Carrying Charges	(d) x (e) Pre-Tax Amount	Income Tax	(f)+(g) Budget Impact
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
							Note 4		Note 5	
	2010 Budget:									
1	Asset Retirement Cost	2	475.2	90.6	565.8	520.5	5.58%	29.0	11.9	40.9
2	Extension to Darlington End-of-Service Life	3	0.0	24.2	24.2	12.1	3.94%	0.5	0.1	0.6

Notes to Table 1b:

- This table is a recasting of filed Ex. D2-T2-S1, Table 1, to show 2010 amounts.
- The ARC increased by \$475.2M effective January 1, 2010 per Ex. C2-T1-S2, Table 3. The annual depreciation expense impact on ARC for the prescribed facilities of \$90.6M is described in Ex. C2-T1-S2, Table 4. The effective date is January 1, 2010.
 The ARC is always "lesser" than UNL as illustrated in Ex. C2-T1-S2, Table 1. Total rate base increases by ARC; Therefore the rate base financed by the OEB's approved capital structure is unchanged. The OEB methodology requires that the accretion rate be used to finance the lesser of ARC and UNL.
- The total impact on depreciation expense on OPG's prescribed facilities of \$114.8M is discussed in Ex. F4-T1-S1, page 6.
 The depreciation expense impact resulting from the extension of service life is the total depreciation expense of \$114.8M less the depreciation expense on ARC of \$90.6M described in footnote 2. The effective date of the extension of service life is January 1, 2010.
 Total Rate Base is increased and the lesser of ARC and UNL amount is unchanged; Therefore the rate base financed by the OEB approved capital structure increases by 100% of the change.
- Weighted average cost of capital financing OPG's funded rate base and weighted average accretion rate per Ex. C1-T1-S1, Table 3 (2010).
- Taxes on incremental taxable income calculated by applying: tax rate / (1 - tax rate). Tax rates from Ex. F4-T2-S1, Table 5.