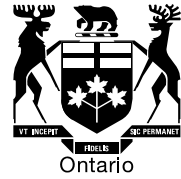


**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27^e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

March 26, 2012

To: Parties to EB-2011-0286

**Re: Ontario Power Generation Inc.
Niagara Tunnel Project Prudence Review**

The Ontario Energy Board (the "Board") released updated *Filing Guidelines for Ontario Power Generation Inc. in Setting Payment Amounts for Prescribed Generation Facilities* (the "Filing Guidelines") on November 11, 2011. The Filing Guidelines set out the information that the Board expects Ontario Power Generation Inc. ("OPG") to file for purposes of the setting of payment amounts for 2013-2014. OPG is expected to file the 2013-2014 payment amounts application in May 2012. The Board has assigned File Number EB-2012-0002 to the 2013-2014 payment amounts application. Please refer to this file number in all future correspondence to the Board regarding this matter. All information related to this matter must be filed with the Board Secretary.

On March 12, 2012, OPG filed correspondence (Attachment) with the Board seeking the Board's concurrence with OPG's proposal to file a separate application in 2013 to review the reasonableness of the costs associated with the Niagara Tunnel Project ("NTP"). While the in-service date for the NTP is expected to be within the two-year test period, OPG states that a separate, dedicated proceeding in 2013 is appropriate.

The Board invites comments on OPG's NTP proposal from parties to the 2013-2014 Filing Guidelines consultation, EB-2011-0286. In particular, the Board wishes to understand whether any party is materially affected in an adverse way, or whether the 2013-2014 payment amounts proceeding is adversely affected by deferring the review of the NTP by one year, when a more accurate understanding of the costs is available. Written comments shall be filed with the Board by April 3, 2012. If OPG wishes to

respond to any comments on the NTP proposal, it shall file the response by April 10, 2012.

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their comments on the OPG NTP proposal. Persons eligible for cost awards in EB-2011-0286 are eligible for cost awards in this comment process. Cost claims must be filed along with the cost claims for the 2013-2014 payment amounts proceeding. If any party that participates in this process does not seek, or is not granted, intervenor and cost eligibility status in the 2013-2014 payment amounts application, the process for the review of the cost claim for that party will be determined at a later date.

The comments must quote file number **EB-2012-0002**, be made through the Board's web portal at <https://www.errr.ontarioenergyboard.ca>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

Filings must be received by **4:45 pm** on the required date.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary
E-mail: boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attach

700 University Avenue, H18-G1 Toronto, ON M5G 1X6

Tel: 416-592-4463 Fax: 416-592-8519
andrew.barrett@opg.com

March 12, 2012

Via E-mail and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Niagara Tunnel Project Prudence Review

This letter seeks the OEB's concurrence with a proposal to file a separate application in 2013 to review the prudence of the Niagara Tunnel Project (NTP).

OPG had originally anticipated that the prudence review would be part of its 2013-2014 Payment Amounts Application. For the reasons discussed below, however, it is now OPG's view that the NTP prudence review should be heard in a separate, dedicated proceeding in 2013.

While the final cost of the NTP will not be known until the project is completed in December 2013, it is clear that the NTP will be the largest capital project ever to have come before the OEB for a prudence review. Given the time and effort that will be required to conduct a prudence review for a project as large and complex as the NTP, a separate proceeding is appropriate.

The project's main element is a tunnel bored to a diameter of 14.4 metres and a length of 10.2 kilometres. Construction began in 2005 and will finish in 2013. Over that time, the project has faced and overcome significant challenges. The OEB panel, Board staff, intervenors and OPG will all benefit from a focussed review of the relevant evidence in a proceeding convened solely for that purpose rather than having NTP prudence be one issue among many in the 2013-14 Payment Amounts Application.

Even without the NTP prudence review, the next Payment Amounts Application will feature a number of significant issues. In addition to the work typically required to evaluate the production, cost and rate base forecasts for OPG's nuclear and regulated hydroelectric facilities, the application will include other substantial issues such as the progress on Darlington Refurbishment, nuclear benchmarking and Pickering Continued Operations. Including the NTP prudence review would only extend the time required to complete this proceeding and add to its complexity.

An OEB prudence review in 2013, rather than in 2012, will enhance the overall accuracy of the cost and schedule forecasts being reviewed because they will be developed a year closer to project completion. OPG expects the NTP to be in service by December 31, 2013. OPG would plan to file its NTP application in the spring of 2013. By the time the hearing is held in late summer or fall 2013, the project should be near completion and little uncertainty will remain about its final cost and in-service date.

In preparing its evidence for the 2013-2014 Payment Amounts Application OPG will exclude forecast NTP rate base, return on rate base, and depreciation. There are no OM&A costs forecast for the NTP in 2013 and 2014 and it is exempt from the Gross Revenue Charge for its first ten years of operation. OPG also will account for the associated production and tax impacts. Thus the impact of the NTP entering rate base is a standalone issue that is severable from the Payment Amounts Application.

OPG is confident that it will be able to identify and separate the NTP costs so that they are completely excluded from the revenue requirement used to form the basis of the 2013-2014 Payments Amount Application. These matters would then be addressed during the NTP prudence review proceeding in 2013.


OPG anticipates that recovery of the approved NTP costs would occur via a rate rider that would be developed as part of the 2013 prudence review proceeding. The rate rider established will recover the revenue requirement associated with the approved costs and based on the actual in service date. The rate rider would operate until the next Payment Amounts Application, at which time the approved amounts for the NTP project would be rolled in the setting of the new payment amounts.

In addition, OPG sees no impact on ratepayers from the proposal for a separate NTP proceeding. Payment amounts will be set without considering NTP capital costs and the rate rider that will come into effect in 2014 will be based on the OEB-approved capital costs. Over the 2013-2014 period, the customer impact resulting from the NTP will be the same whether established under a two-year payment amounts proceeding or a separate NTP proceeding. However, OPG's proposal will result in a one year deferral to the start of that customer impact.

Ultimately, OPG will only recover the NTP costs approved by the OEB, whether they are determined in the payment amounts proceeding or in a standalone proceeding. OPG believes that a separate application process offers real benefits in terms of facilitating a comprehensive prudence review and streamlining the payment amounts proceeding, without any offsetting costs.

For all of these reasons, OPG asks that the OEB indicate its concurrence with OPG's proposal to file a separate application in 2013 to review the prudence of the NTP expenditures as provided for in O.Reg. 53/05. As OPG in the midst of its work to finalize the 2013-2014 Payments Amounts Application in anticipation of a mid-May filing, OPG would appreciate a timely response to its proposal.

Respectfully submitted,



Andrew Barrett

Vice President
Regulatory Affairs & Corporate Strategy