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BY E-MAIL

November 23, 2012

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

Dear Ms. Walli:

Re: Ontario Power Generation Inc.
Board File No. EB-2012-0002

Please find attached Board staff's interrogatories with respect to Ontario Power Generation Inc.'s application for an order or orders relating to deferral and variance accounts and the adoption of USGAAP for regulatory purposes. The grouping and numbering of interrogatories is consistent with the final issues list which was issued on November 22, 2012.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications & Regulatory Audit

Attach

Board Staff Interrogatories
Deferral and Variance Accounts and USGAAP
Ontario Power Generation Inc. ("OPG")
EB-2012-0002
November 23, 2012

Issue 1
Is the nature or type of amounts recorded in the deferral and variance accounts appropriate?

1-Staff-1
Ref: Exh H1-1-1 page 4
The pre-filed evidence states that one of the contributing factors to the variance in the Ancillary Services Net Revenue Variance Account – Hydroelectric is the "…lower than expected automatic generation control revenues due to the elimination of the Global Adjustment charge associated with the use of the Sir Adam Beck Pump Generating Station ("PGS") under O. Reg. 429/04 as amended…"

a) With respect to the Global Adjustment charge associated with the use of the PGS, please provide reference to the specific sections of O. Reg. 429/04 that were amended and when the amendment was effective.
b) Please provide the calculation of the impact in 2011 and 2012 due to the elimination of the Global Adjustment charge.

Nuclear Liability Deferral Account

1-Staff-2
Ref. Exh A3-1-1 Attachment 1
Ref: Exh H2-1-1 Table 1
OPG's 2011 Annual Report (page 75) states, "The most recent update of the estimate for the Nuclear Liabilities was performed as at December 31, 2011 and resulted in a $934 million increase to OPG's liabilities, and a corresponding increase in the carrying value of the nuclear generating stations to which the liabilities relate."

The current approved ONFA Reference Plan covers the period from 2012 to 2016 and was approved by the Province effective on January 1, 2012.

a) Please explain the relationship between the ONFA Reference Plan created funds for OPG's nuclear programs and OPG's nuclear liabilities, and how the changes to the funds/funding as required by the reference plan create impacts on the nuclear liabilities (or vice versa).
b) Please explain the accounting basis upon which changes arising from the ONFA Reference Plan effective January 1, 2012 were recognized and recorded in the 2011 financial statements (e.g., "Property, plant and equipment" and "Fixed asset removal and nuclear waste management" line items in the consolidated balance sheets, etc.) given that the effective date of the current ONFA Reference Plan is January 1, 2012.

c) Board staff notes that the Darlington ARO refurbishment adjustment amount of $497M (Exh. H2-1-1, Table 1) which was effective January 1, 2010 was added to the adjusted opening balance in 2010. Please explain why accounting changes related to the ONFA Reference Plan effective January 1, 2012 are not reflected as adjustments to the 2012 opening balance sheets and therefore the starting point of the 2012 calculations applicable to the Nuclear Liability Deferral Account and the Bruce Lease Net Revenues Variance Account.

1-Staff-3

Ref: Exh H1-1-1 Table 9

Ref: Exh H2-1-1 Tables 1 and 3

Table 9 provides a summary of the 2012 transactions that give rise to the $180M addition to the Nuclear Liability Deferral Account in 2012, as projected by OPG as at December 31, 2012. Several key calculations are based on “2011” data shown in Table 3 (Exh H2-1-1) regarding impacts arising from changes to the ONFA Reference Plan effective January 1, 2012. Table 3 also provides data for the impacts in 2012.

a) Please explain whether the 2011 data, as at December 31, 2011, listed in Table 3 of Exh H2-1-1 were used to derive incremental amounts for depreciation expense and return on rate base, etc. recorded in the Nuclear Liability Deferral Account for 2012 in Table 9 of Exh H1-1-1. If yes, please confirm that December 31, 2011 is the measurement date for the ONFA Reference Plan effective January 1, 2012.
b) Please provide the revenue requirement impacts including depreciation expense, return on rate base, variable expenses and income tax, that will be recorded as 2013 additions in the Nuclear Liability Deferral Account associated with the impact of changes to the ONFA Reference Plan for 2011 and 2012 shown in Exh H1-1-1 Table 9 and Exh H2-1-1 Tables 1 and 3.
c) Please confirm that the revenue requirements impacts arising from changes in the ONFA Reference Plan effective January 1, 2012 will be proposed for inclusion in the base payment amounts in OPG’s next cost service application.

1-Staff-4

Ref: Exh H2-1-1 Table 3

Table 3 lists amounts associated with each of the five nuclear programs (under Description line items row #’s 1 to 12) in relation to each nuclear station (under Prescribed Facilities columns a to c and Bruce Facilities columns e and f).

a) Please provide detailed calculations, including all inputs and assumptions, showing and explaining how these amounts were derived.
b) What methodology was used to attribute and allocate these costs to each station unit and how was it applied?
c) What is the probability of significant differences (or range of probability outcomes) in estimating these amounts based on the inputs and assumptions in the ONFA Reference Plan effective January 1, 2012?
d) Was any sensitivity analysis performed to determine whether the results and impacts were reasonable and acceptable, and if so, what was the methodology used and the results of this analysis?

1-Staff-5

Ref: Exh H2-1-1 Attachment 1

The letter dated June 14, 2012 from the Ontario Financing Authority indicates that the Province in approving the ONFA Reference Plan effective January 1, 2012 is prepared to work with OPG and provide OPG with feedback on its proposed implementation of calculations mandated by ONFA sections 3.6, 3.7, 3.8 and 4.6.

a) Please provide sections 3.6, 3.7, 3.8 and 4.6 and related sections from the ONFA.
b) Please provide a summary of the calculations mandated by ONFA for sections 3.6, 3.7, 3.8 and 4.6 and how they relate and are used in the derivation of the asset retirement obligation and the segregated fund contribution schedule.
c) Please indicate whether OPG received any feedback from the Province regarding these mandated calculations and their implementation.
d) Have all calculations for the ONFA Reference Plan effective January 1, 2012 and their implementation been finalized and approved by the Province?

Bruce Lease Net Revenues Variance Account

1-Staff-6

Ref: Exh H2-1-2 pages 2 to 3

The pre-filed evidence states that, "… OPG and Bruce Power reached an agreement that effectively binds Bruce Power to the renewal of the Bruce Lease beyond the initial expiry date." The pre-filed evidence also states that "… the expected lease term for accounting purposes was extended to December 2036."

a) Please provide the date to which the Bruce Lease agreement between OPG and Bruce Power was extended.
b) Please explain the statement that "the expected lease term for accounting purposes was extended to December 2036" with respect to the actual terms and conditions in the Bruce Lease agreement between OPG and Bruce Power.

1-Staff-7

Ref: Exh H2-1-2 pages 4 to 6

The Bruce Lease revenues consist of base rent and supplemental rent.

a) Please clarify whether the Bruce Supplemental Rent Revenues are accounted as a derivative (i.e. standalone) or as an embedded derivative (i.e., hybrid as part of the Bruce Lease host contract) in relation to the terms and conditions in the Bruce Lease agreement.
b) What is the accounting basis upon which the Bruce Lease can be accounted for as a derivative? Please include in the response references to the specific accounting standard(s) in Section 3855 of the CICA Handbook that qualifies the conditional reduction to Bruce Supplemental Rent Revenues in the future accounting periods, embedded in the terms of the Bruce Lease, for derivative accounting treatment.
c) Is derivative accounting treatment under Canadian GAAP prescriptive for leases in the situation where there are conditions attached to a lease, or are there other

accounting treatments available under Canadian or USGAAP for rentals contingent on factors related to future use or price indexes? If so, please identify the other accounting treatments in the applicable standard.

1-Staff-8

Ref: Exh H2-1-2 pages 3 to 4

OPG states that,

> Supplemental rent revenue is generally recognized on a cash basis for [CGAAP] financial accounting purposes because it is not a fixed amount and is contingent on the number and operational state of Bruce units. Supplemental rent is also dependent on the Hourly Ontario Energy Price ("HOEP"). A provision in the Bruce Lease requires a partial rebate by OPG to Bruce Power of the supplemental rent payments for the Bruce B units in a calendar year where the annual arithmetic average of the HOEP ("Average HOEP") falls below $30/MWh, and certain other conditions are met.
>
> As discussed in the EB-2010-0008 evidence, this conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, must be accounted for as a derivative.

a) Please explain why the supplemental rent revenue is generally recognized on a cash basis for CGAAP financial accounting purposes when OPG has accounted for it as a derivative?
b) Please identify the "certain other conditions" that must be met for the partial rebate of supplemental rent, in addition to the condition of the annual arithmetic average of the HOEP ("Average HOEP") falling below $30/MWh.

1-Staff-9

Ref: Exh H2-1-2 page 4

OPG states, "In a year where Average HOEP falls below $30/MWh, the reduction in the supplemental rent payments to OPG determined at the end of that year typically would be offset by a reduction in the derivative liability. The resulting net effect is that the amount of supplemental rent revenue recognized for accounting purposes in that year would be unchanged [scenario 1]. However, any change to the present value of the expected reductions in payments over the derivative's remaining life (i.e., in subsequent years) must be recognized as an adjustment to the fair value of the derivative liability and revenue in the current year [scenario 2]."

a) For the first scenario above, please confirm that this was the case in 2011, where a reduction in the supplemental rent payments at the end of the year typically would be offset by a reduction in the derivative liability but the resulting net effect in that year would be unchanged. In addition, please provide the journal entries for 2011.
b) For the second scenario above, please confirm that this will be the case in 2012 resulting in an adjustment to the fair value of the derivative liability and revenue in

the current year. In addition, please provide the journal entries for 2012 that relate to the projected amounts.

c) Please provide and illustrate the financial impacts for the derivative accounting related to supplemental rent under the applicable line items and associated amounts in the 2011 audited financial statements and the same on a pro forma basis in the 2012 financial statements.

1-Staff-10

Ref: Exh H2-1-2 page 4 to 6

OPG states at Exh H2-1-2 page 4 that,

> "The derivative is measured at fair value for financial accounting purposes and changes in its fair value are recognized as adjustments to revenue. The fair value is derived based on the present value of the probability-weighted expectations of reductions in supplemental rent payments in the future as a result of **Average HOEP falling below $30/MWh** calculated over the remaining accounting service life of the applicable Bruce units…any change to the present value of the expected reductions in payments over the derivative's remaining life (i.e., in subsequent years) must be **recognized as an adjustment to the fair value of the derivative liability and revenue in the current year**...OPG calculates the fair value of the derivative using a valuation model." [Emphasis added]

a) Has this condition in the Bruce Lease (or as amended thereafter) of an "Average HOEP falling below $30/MWh" (or other threshold conditions) been triggered in the past which gave rise to a recognition of an adjustment to the fair value of the derivative liability and revenue in the current year? If so, please provide the details.
b) Are there other terms and conditions in the Bruce Lease (or as amended thereafter) which may have financial and revenue requirement consequences that have not been made available to the Board in previous proceedings? If so, please provide the details including the estimated impacts to the revenue requirement/payment amounts.
c) Please provide the detailed calculation results of the valuation model including provision of all key significant inputs, assumptions - including financial amendments to the Bruce Lease agreement, and data used including HOEP forecasts - showing and explaining the derivation of supplemental rent revenues.
d) Please provide the HOEP forecast used each year in the derivation of supplemental rent revenues and the methodology used to determine the forecast values.

1-Staff-11

Ref: Exh H2-1-2 page 4 to 6

a) Please provide the annual supplemental rent revenues, including breakdown by reductions due to unit refurbishments and HOEP rebates, recognized and reported for financial accounting purposes since the inception of the Bruce Lease and a summary of the key significant inputs and assumptions used to derive each amount.

b) Please provide the annual supplemental rent payments received from Bruce Power L.P., including the gross amounts and any supplemental rent reduction due to refurbished Bruce units and rebates due to HOEP, since the inception of the Bruce Lease.
c) Please revise Table 14 and 14a of Exh H1-1-1 to reflect the projected 2012 supplemental rent payments to be received on an actual basis from Bruce Power comprising the gross supplemental rent amounts less any reductions due to refurbished Bruce units and rebates due to HOEP less than $30/MWh in the year (i.e., no derivative accounting to be reflected in supplemental rent payments).

1-Staff-12

Ref: Exh H2-1-2 page 5

Ref: Exh H1-1-1 Table 14 and 14a

Effective December 31, 2012, OPG expects to extend the estimated average service life of the Bruce B station from 2014 to 2019. OPG states that (Exh H2-1-2 page 5), "…the 2012 supplemental rent revenue forecast is $354.2M less than the EB-2010-0008 approved forecast, as shown in Exh H1-1-1 Table 14a. The extended average service life is projected to increase the fair value of the derivative liability at December 31, 2012 by approximately $306M based on current probability-weighted expectations of future Average HOEP over the additional life of the applicable Bruce units."

According to Table 14a, the 2012 approved forecast for supplemental rent revenue was $202.3M as compared to the 2012 projected amount of -$151.9M, which results in an extraordinary shortfall of $354.2M. In addition, as shown in Tables 14 and 14a, this change to supplemental rent revenues is the key reason (aside from an increase in total costs before income tax of $70.5M) for the $305M addition to the variance account in 2012.

a) Please confirm whether the 2012 projected supplemental rent revenue amount of -$151.9M includes and factors in all supplemental rent revenues in relation to all future years of the Bruce Lease, which for accounting purposes were recognized and accounted for on December 31, 2012.
b) Board staff notes that this extraordinary financial accounting change in the supplemental rent revenue of –$354.2M appears to have not occurred before and was caused by the probability of receiving lower supplemental rent revenues tied to the forecast of lower HOEP in the future. Please explain why ratepayers should be held responsible for these amounts in their current electricity payments?
c) Please explain whether or not OPG considered other ratemaking mechanisms by which this extraordinary supplemental rent revenue shortfall amount of $354.2M could be mitigated or smoothed (other than the proposed recovery period of 4 years).
d) Are there any regulatory accounting mechanisms by which the financial accounting impacts of the rebates attributable to supplemental rent revenue (due to HOEP less than $30/MWh) could be mitigated or smoothed? For example, if changes to the fair value of the derivative liability are triggered in a particular period, this change could be deferred and recorded in a "tracking account" and the accumulated balance could

then be amortized annually over the average remaining accounting service life of the Bruce units. As such, the current period amortized amount would be "added" annually to the supplemental rent revenue. In this fashion, the accounting impacts of the rebates are smoothed for inclusion in the determination of the Bruce Lease net revenues.

1-Staff-13
Ref: Exh H1-1-1
Ref; Exh H2-1-2
Should the clearance of the 2012 balance in the Bruce Lease Net Revenues Variance Account included in this non-cost of service application be set aside for review in a future cost of service payment application proceeding? If not, please provide reasons.

Pension and OPEB Cost Variance Account

1-Staff-14
Ref: OPG Motion Proceeding EB-2011-0090
Ref: Exh H1-1-1 Table 5
In the decision in proceeding EB-2011-0090, issued on June 23, 2011, the Board approved the establishment of the Pension and OPEB Cost Variance Account. At page 14 of the decision, it states that, "The clearance of this account will be reviewed in OPG's **next payment amounts application hearing**." [emphasis added]

a) Please explain why OPG is seeking clearance of this account in the current application and not in a future payment amounts proceeding.
b) OPG filed an application for 2011-2012 payment amounts on May 26, 2010, (EB-2010-0008). On September 30, 2010, OPG filed an impact statement that forecast that pension and OPEB expenses would increase significantly. The pension and OPEB cost forecast for 2011 in EB-2010-0008 was $287.1M. The impact statement showed a forecast cost of $427.2M. Please confirm that the actual pension and OPEB incurred cost for 2011 was lower than the impact statement forecast cost of $427.2M, and explain why the costs were lower.
c) Please provide references to previous proceedings and any further information to support the allocation of amounts between regulated hydroelectric and nuclear in the Pension and OPEB Cost Variance Account.

Issue 2
Are the balances for recovery in each of the deferral and variance accounts appropriate?

2-Staff-15

Ref: Exh H1-1-1 Tables 1, 1a, 1b and 1c
a) Please provide a new table (e.g. "Table 1d") for all deferral and variance account balances showing only the "additions" (i.e., new principal transactions and associated carrying charges arising in each of the following three periods shown separately and the grand totals (for these additions) as at December 31, 2012.

i. January to February 2011(as applicable);
ii. March to December 2011; and
iii. January to December 2012.

b) Please confirm that the proposed grand totals as at December 31, 2012 (covering the three periods from January 1, 2011 to December 31, 2012) for each deferral and variance account represent the new “addition” amounts OPG is seeking approval to recover from (or refund to) ratepayers since the last payment order (EB-2010-0008).
c) Please provide a new table (e.g. “Table 1e”) showing the current approved deferral and variance account balances approved as at December 31, 2010 in the last payment order (EB-2010-008) with no (subsequent) additions covering the three periods shown in a) above and the grand totals as at December 31, 2012. equal
d) Please confirm that the sum of the grand totals in the two tables above in a) and c) match the totals in column (d) in Table 1 and column (f) in Table 1c. If not, please explain the difference.

2-Staff-16

Ref: Exh H1-1-1 Table 15 and Table 7

Table 15 summarizes transactions for the Nuclear Deferral and Variance Over/Under Recovery Variance Account.

a) Please confirm whether the “Mar-Dec 2011” addition to the Nuclear Deferral and Variance Over/Under Recovery Variance Account should be $6.5M instead of $7.4M based on the following calculations and sources:
   - Line 6 column (b) = 42 TWh (i.e., 50.4 TWh x (10/12); Line 7 column (b) = 40.5 TWh (i.e., 48.6 x (10/12); Line 8 column (b) = 1.5 TWh (i.e., 42 TWh – 40.5 TWh;); Line 9 column (b) = $4.33 TWh and; Line 10 column (b) = $6.5M (i.e., 1.5 TWh x $4.33 per MWh)
   - Source: Line 6 column (b) = 50.4 TWh based on the 2011 approved production in the Payment Amounts Order EB-2010-0008 Appendix A Table 3
   - Source: Line 7 column (b) = 48.6 TWh per EB-2012-0002 Ex. A3-1-1 Attachment 1 page 12 MD&A
b) Please provide a summary of the transactions in this account for the period from January 2011 to December 2012 (projected) including the transfers from the various accounts to this account.
c) With respect to Table 15, please provide the 2011 and 2012 nuclear forecast production by month and actual production, if available.
d) With respect to Table 7, please provide the 2011 and 2012 regulated hydroelectric forecast production by month and actual production, if available.

2-Staff-17

Ref: Exh H1-1-1 page 5 and Table 4

Please provide references to previous proceedings and any further information to support the allocation of amounts between regulated hydroelectric and nuclear in the Income and Other Taxes Variance Account.

Nuclear Liability Deferral Account

2-Staff-18
Ref: OPG 2011-2012 Payment Amounts Application (EB-2010-0008)
Ref: Exh H2-1-1
Ref: Exh H1-1-1 Table 9
As noted in Exh C2-1-1 of the evidence filed in EB-2010-0008, the ONFA Reference Plan must be updated every five years or whenever there is a significant change. The Reference Plan that underpins the 2011-2012 payments amounts was approved by the Province in December 2006. The pre-filed evidence in the current proceeding documents that the current ONFA Reference Plan was approved by the Province effective January 1, 2012.

The pre-filed evidence in H2-1-1 refers to approved discount rates. Please provide a comparison of approved discount rates in the Reference Plan approved in December 2006 with the ONFA Reference Plan effective January 1, 2012.

2-Staff-19
Ref: Exh H2-1-1 page 2-3
Ref: Exh H2-2-1 page 7-8
Ref: Exh H1-1-1 Table 9
At pages 2-3 of Exh H2-1-1, it states:

> The current approved ONFA Reference Plan is projected to result in higher accounting nuclear liabilities costs due to:
>
> - Higher construction costs for both DGR, which reflect more detailed engineering and advanced design concepts.
> - Higher Used Fuel and L&ILW Storage program costs that reflect current operational experience and assumptions about station end-of-life dates.
> - Increase in the fixed costs arising from a higher number of used fuel bundles and amount of L&ILW to be managed. This increase results from the projected accounting implementation at the end of 2012 of the changes in estimated service lives of Pickering A and B and Bruce A and B units as contained in the current approved ONFA Reference Plan. The changes in the average service lives, for accounting purposes, of the Bruce A and B stations are discussed in Ex. H2-1-2. Similar changes for Pickering A and B are expected based on OPG's high confidence with respect to the extended service lives of their pressure tubes, as discussed in Ex. H2-2-1.
> - The above increases are partially offset by a reduction in decommissioning costs due to several factors including longer station operating lives that reduce the present value of the decommissioning liability, the assumed co-location of decommissioning L&ILW waste with operational waste in the Kincardine DGR, and a more defined characterization of waste in the nuclear facilities that reduces the amount of expensive, higher dose dismantlement work.

a) Note 2 of Table 9 at Exh H1-1-1 lists the useful life of Pickering A, Pickering B and Darlington at December 31, 2011. Please confirm whether the useful lives summarized in Note 2 are the same as the useful lives that underpin the 2011-2012 payment amounts.
b) Please provide the "longer station operating lives" that contribute to the $180M projected 2012 year-end balance in the Nuclear Liability Deferral Account. Are these "longer station operating lives" specifically referenced in the ONFA Reference Plan effective January 1, 2012?
c) At pages 7-8 of Exh H2-2-1, OPG states that the fuel channel life cycle management program:

> … will confirm that the refurbishment of Darlington can begin in 2016 and will not need to be advanced. The work also supports the determination of high confidence that Pickering can maintain fitness for service to 2020 end-of life. In December 2012, a high confidence statement regarding the service lives of pressure tubes based on available research and development ("R&D") results Pickering and Darlington will be presented to the OPG Board of Directors in order to make business decisions on the continued operations of Pickering and the refurbishment of Darlington.

   Please clarify whether refurbishment of Darlington commencing in 2016 and Pickering 2020 end-of-life have been approved by the OPG Board of Directors. If yes, when was the approval provided? If no, what operating life has been approved for these stations at the time of the filing of the current application?
d) Please provide copies of the approved 2010 and 2011 Depreciation Review Committee Reports for the Regulated Business.

2-Staff-20

<u>Ref: Exh H2-1-1 pages 2 and 3</u>

The pre-filed evidence states that one of the main steps in establishing a new ONFA Reference Plan is, "Developing cost estimates for each of the five nuclear waste management and decommissioning programs based on the planning assumptions … The baseline cost estimates are escalated into future year values and then discounted to today's dollars using the approved discount rate established in the ONFA (5.15 per cent for the current approved ONFA Reference Plan) in order to calculate the present value of the lifecycle liability." The evidence also states that an accounting consequence of the current approved ONFA Reference Plan is, "A 2011 year-end net increase to the carrying book value of the ARO and ARC of $934M at a discount rate of 3.43 per cent."

a) Please clarify the differences in using two discount rates referenced above in relation to the baseline cost estimates of 5.15 per cent and the carrying book value of the ARO and ARC of 3.43 per cent.
b) Do USGAAP and IFRS permit the use of a different discount rate which is applied only to the portion of the ARO that has changed due to amendments to the ARO?

Pension and OPEB Cost Variance Account

2-Staff-21
Ref: Exh H1-1-1 Table 5
Ref: Exh H2-1-3 Attachment 1 page 5
Table 5 summarizes the approved Forecast Pension and OPEB Costs (EB-2010-0008) for 2011 and 2012 in lines 1 and 2. Note 2 to Table 5 shows the calculation of the forecast for the two years derived by dividing the total two-year forecast by 24 months in order to pro-rate the amounts shown in Table 5 column (a) and (b) for 2011 and (d) and (e) for 2012. In the *Independent Auditors' Report, Schedule of the Pension and OPEB Cost Variance Account as at December 31, 2011*, Note 2 specifies that the actual pension and OPEB costs for the ten-month period ended December 31, 2011 were determined by applying a factor of 10/12 to the actual pension and OPEB costs attributed to the Prescribed Facilities for the year ended December 31, 2011.

a) Please recalculate the forecast amounts in Note 2 lines 4a and 5a under columns (a) and (b) for 2011 and (d) and (e) for 2012 respectively in relation to Table 5 lines 1 and 2 as follows:
   i. In line 4a, using the 2011 Forecast Pension Cost (EB-2010-0008) amounts shown in line 1a, divide these amounts by 12 times 10 (i.e., ((line 1a / 12) x 10 months))
   ii. In line 5a, using the 2012 forecast - unadjusted (EB-2010-0008) amounts shown in line 2a, divide these amounts by 12 times 12 (i.e., ((line 2a / 12) x 12 months))
b) Please recast Table 5 and Note 2 and all other applicable tables based on the above recalculation of the Pension and OPEB Variance Account balances as at December 31, 2011 and December 31, 2012.

2-Staff-22
Ref: Exh H1-1-1 Tables 1 and 5
The total balance as at December 31, 2012 in the Pension and OPEB Cost Variance Account shown in Table 1 is $349.8M (i.e., $16.7M + $333.1M shown in lines 8 and 23 of column (d) respectively) whereas the total balance in Table 5 is $346M (i.e. $95.9M + $250.3M totals shown in line 10 of columns (c) and (f) respectively), which represents a difference of $3.8M in the total balances in the two tables.

a) Please indicate what are the correct balances for this account as at December 31, 2011 and December 31, 2012.
b) Please make adjustments as appropriate and recast all applicable tables and related amounts in the application

2-Staff-23
Ref: Exh. H2-1-3
a) Please provide a breakdown showing the variances between the approved forecast and the actual (or projected) amounts in relation to the components of net periodic pension and benefit cost in the table below.

b) Please provide the reasons for the variances with respect to each component amount in the table below.

Components of Net Periodic Pension and Benefit Cost	Pension Variance Amount		OPEB Variance Amount	
	2011	2012	2011	2012
Employer current service cost				
Interest cost				
Expected return on plan assets				
Amortization of past service costs				
Amortization of net actuarial loss (gain)				
Total				

2-Staff-24

<u>Ref: Exh H2-1-3 pages 6 to11</u>

The pre-filed evidence states that the projected increases in 2013 pension and OPEB costs are primarily due to lower discount rates. For 2013 the lower projected discount rates are: 4.70 per cent for pension, 4.80 per cent for other post-retirement benefits and 3.70 per cent for long-term disability benefits. These rates reflect the continuing downward trend in long-term bond rates attributable to current financial market conditions.

a) Please provide the assumptions and data including the source(s) of the data underlying the discount rates cited for 2013, and provide the expected long-term bond rates and related assumptions and data for 2013.
b) Please provide 2014 projected pension and OPEB costs in the format of Chart 2 (page 11) and the assumptions and data including the source(s) of the data underlying the discount rates cited for 2014.
c) What is the trend that OPG forecasts for discount rates over the next five years and the longer term?
d) For Chart 1 (Exh H2-1-3 page 6), please add “Inflation rate” and “Salary schedule escalation rate” under Assumption (i.e., please add new rows in the chart and provide the related information). In addition, please provide projections of the assumptions (as amended above) in Chart 1 continuing for the years 2013 to 2017 inclusive (i.e., please add new columns for these years in the chart and provide the related information).

Issue 3

Are the proposed rate riders and disposition periods to dispose of the account balances appropriate?

3-Staff-25

Ref: Exh H1-2-1 page 1

At line 18 of the pre-filed evidence it states that, "OPG proposes to recover resulting variances in recovery amounts during the period January 1, 2013 to the **effective** date of the new riders through additional Interim Period Shortfall Riders ("IPSR") ..."

Please confirm that the reference should be to the **implementation** date of the new riders.

3-Staff-26

Ref: Exh I1-1-1

Ref: Exh I1-1-2

OPG is proposing to clear deferral and variance account balances on the basis of audited balances for 2011 and forecast balances for 2012, with audited balances to follow in February 2013.

a) With the exception of EB-2010-0008, please provide examples of any other cases where the Board approved forecast balances for disposition, and audited balances were filed following the technical conference or following the close of the record.
b) How does OPG propose the Board should procedurally address any follow-up inquiry from Board staff and intervenors regarding the audited figures provided in the 2012 audited financial statements at that stage of the proceeding?
c) Please determine rate riders and bill impact if only the 2011 audited balances are recovered.

3-Staff-27

Ref: Exh I1-1-2 page 1

OPG states that the residential customer bill impact of the current application is estimated to be $1.70 per month. Please provide the supporting calculations. Please present the calculations in the format used in Exh I1-1-2 Table 1 (EB-2010-0008).

3-Staff-28

Ref: Filing Guidelines for Ontario Power Generation Inc. (EB-2011-0286)

Ref: Exh H1-2-1 page 5

Page 21 of the filing guidelines summarizes the filing of payment amount implementation information. Please provide a description of the settlement process with the IESO, including a description of the timelines associated with a rate rider implementation date of March 1, 2013, as an example.

Issue 4

Is the proposed continuation of the Pension and OPEB Cost Variance until the effective date of the next payment amounts order appropriate?

4-Staff-29
Ref: Exh H2-1-3 page 8
The pre-filed evidence indicates that OPG is requesting authority to continue recording entries in the Pension and OPEB Cost Variance Account until the effective date of OPG's next payment amounts order.

When does OPG plan to file a cost of service application(s) for its next payment amounts order(s) for hydroelectric and/or nuclear prescribed assets and what years would the payment order(s) be in effect for?

4-Staff-30
Ref: Exh H2-1-3 page 11
Mark Carney, Governor of the Bank of Canada, in a Monetary Policy Report news conference on October 24, 2012 stated that "over time, rates are more likely to go up than not."

Does OPG support the continuation of this variance account in the longer term in recognition that discount rates are more likely than not to increase in the future, so that any benefits accruing to ratepayers (not reflected in the future test years' revenue requirements) can be attributed to ratepayers in the future? If not, please provide the reasons and what year should be the sunset for this variance account.

Issue 6
Is the request to adopt USGAAP for regulatory accounting, reporting and rate-making purposes appropriate?

6-Staff-31
Ref: Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment (EB-2008-0408)
Ref: Exh A3-2-2
Issue 4 of the Addendum is "Should the Board permit rate applications or RRR reporting under USGAAP?" At page 19 of the Addendum, it states:

> However, the Board must consider the general public interest in ensuring efficiency and consistency in utility regulation in Ontario, and will require utilities to explain the use of an accounting standard other than MIFRS for regulatory purposes.
>
> A utility, in its **first cost of service application following the adoption of the new accounting standard** [emphasis added], must demonstrate the eligibility of the utility under the relevant securities legislation to report financial information using that standard, include a copy of the authorization to use the standard from the appropriate Canadian securities regulator (if applicable) showing any conditions or limitations, and set out the benefits and potential disadvantages to the utility and its ratepayers of using the alternate accounting standard for rate regulation.

Please explain why OPG's request for approval to adopt USGAAP for regulatory purposes is not part of a cost of service application, where detailed information on all potential accounting changes and the associated quantifiable impacts could be fully examined and assessed.

6-Staff-32
Ref: OPG Application for USGAAP Deferral Account (EB-2011-0432), page 5
Ref: Exh A3-1-2 page 8
At page 5 of OPG's application for a USGAAP deferral account, it states that, "OPG would have been required to seek OEB approval of regulatory assets in excess of $2 billion in order to address the financial impacts from the adoption of IFRS." In the current application at page 8, it states that the cumulative impact of IFRS would be $3.9 billion. Please explain the reasons for the difference in the estimated impact filed on December 29, 2011 and that filed on September 24, 2012.

6-Staff-33
Ref: Exh A3-1-2, pages 8-9
OPG has indicated if it had adopted IFRS there would have been several changes under IFRS including pension and OPEB plans and nuclear liabilities which would introduce additional volatility. This includes additional impacts for 2012 based on the actuarial gains and losses and past service costs arising during that year which would be charged to and remain in AOCI. As at the end of 2012, OPG projected the cumulative impact of the changes to be close to $3.9 billion on a pre-tax basis.

a) If OPG had adopted IFRS in 2012 rather than USGAAP, what would the financial impact be on pension expense for 2012 and 2013 arising from the cumulative impact of the changes of close to $3.9 billion referenced above and financial impact on the variable costs being expensed immediately in 2012 and 2013?
b) Are there other quantifiable financial impacts from an adoption of IFRS for 2013 that can be identified?

6-Staff-34
Ref: OPG Application for USGAAP Deferral Account (EB-2011-0432)
Ref: Exh H1-1-1 pages 8-9
In the decision in proceeding EB-2011-0432, issued on March 2, 2012, the Board approved the establishment of the Impact for USGAAP Deferral Account. At page 5 of the decision, it states that:

- The approval of the establishment of the deferral account should not be considered to be in any manner or degree whatsoever predictive of disposition of the account; and
- Approval of the establishment of the deferral account should not be considered to be predictive in any manner or degree whatsoever of the Board's determination with respect to the adoption of USGAAP for

> regulatory accounting purposes in OPG's next payment amounts application.
>
> **The extent to which any of the amounts captured in this account would be subject to carrying charges will be determined by the panel deciding the next payments case.** [emphasis added]

a) In the event that the Board does not approve the adoption of USGAAP for regulatory purposes in the current proceeding, please confirm that the Impact for USGAAP Deferral Account would not be eligible for clearance in the current proceeding.
b) At pages 8-9 of Exh H1-1-1, OPG states that it proposes to record an estimated $0.8M of interest for 2012 on the balance in this account. Please explain why the balance in this account would be subject to carrying charges. Please explain why OPG is seeking a determination on carrying charges in the current application and not in a future payment amounts proceeding.
c) Please provide references to previous proceedings and any further information to support the allocation of amounts between regulated hydroelectric and nuclear in the Impact for USGAAP Deferral Account.

6-Staff-35
Ref: Exh A3-1-2 Attachment 3 Page 5
The 2011 Actuarial Report stated:

> Transition
> Upon transition at January 1, 2011, the net benefit asset (liability) in respect of each of the plans must be adjusted to reflect each plan's funded status, with corresponding adjustments to AOCI.
>
> For the LTD [long-term disability benefits] plan, all unrecognized past service costs and unrecognized net actuarial gains and losses under Canadian GAAP must be recognized immediately upon transition [to USGAAP] at January 1, 2011, with a corresponding adjustment to retained earnings.

Based on the above statements, the LTD benefits plan for 2011 was recorded in retained earnings under USGAAP. This resulted in a $39.6M adjustment to retained earnings in 2011 of which $31.4M was allocated to the regulated business and recorded in the USGAAP Deferral Account in 2012 according to H1-1-1 Table 6.

a) Please provide the specific accounting guidance under USGAAP that provides for this accounting treatment specifically for the LTD benefits plan to reflect LTD related unrecognized past service costs and actuarial gain or loss in net income (or retained earnings) but not in AOCI.
b) Please indicate where the LTD benefits plan adjustments are reflected in the Q2-2012 MD&A and financial statements, and particularly in Note 18 US GAAP Transition, posted on OPG's website at the following link: http://www.opg.com/investor/pdf/2012_Q2_FullRpt.pdf

c) What is the estimated annual impact arising from this treatment change to LTD benefits on go forward basis for financial accounting and revenue requirement purposes?

6-Staff-36

Ref: Exh A3-1-2 page 4 Chart 1

The total transition costs associated with the LTD benefits plan due to accounting changes to USGAAP in 2011 were calculated as $40.7M (i.e., $31.4M related to LTD and $9.3M related to higher restated costs in 2011) before tax impacts.

a) Please provide a detailed calculation showing the derivation of the $9.3M related to higher restated costs in 2011.
b) Please identify what amounts for LTD benefits were included in the current test period (March 2011 to December 2012) revenue requirement arising from the amortization of net cumulative unamortized actuarial gain or loss for the LTD plan (under the CGAAP corridor method) and past service costs related to the LTD plan. If there were any amounts included in the revenue requirement, should these amounts be an offset to the amounts recorded in the USGAAP Deferral Account or should the amounts be included in the true-up reflected in the Pension and OPEB Variance Account?
c) Please provide the journal entry in OPG's financial accounting records including the date of the entry for the $40.7M LTD benefits plan in relation to the changes in 2011 as recorded in OPG's financial records.
d) Please explain why the $40.7M LTD benefits plan attributable to accounting changes in the 2011 financial year (while still under CGAAP) should be classified as "transition costs" and be carried forward for inclusion as part of the 2012 account balance and should be recoverable given that the approved deferral account is effective from January 1, 2012 to the effective date of the next payment amounts order.

6-Staff-37

Ref: Exh A3-1-2 page 6

OPG indicates that USGAAP requires the amount of base rent revenue to be recognized on a straight-line basis is from the start of the Bruce Lease in 2001. Under CGAAP, the amount of rent revenue recognized is calculated on a straight-line basis effective April 1, 2008 following the OEB's direction that "Bruce lease revenue be calculated in accordance with GAAP for non-regulated businesses" (EB-2007-0905, page 110).

a) Please confirm that the change in accounting under USGAAP starts retrospectively from the inception of the Bruce Lease on a straight-line basis for the Bruce Lease base rent and thus the impact of this change results in rents being recalculated from the lease inception and then applied prospectively starting in 2012 over the remaining years of the lease. If not, please provide a clarification.
b) Please explain whether CGAAP contains the same provisions for the use of the straight line basis since the inception of the Bruce Lease in 2001, and consequently

whether this change in accounting could have been applied under CGAAP following the Board direction in EB-2007-0905.

c) Are there any changes to the approach used by OPG to determine the Bruce Lease supplemental rent revenues under USGAAP as compared to CGAAP?

6-Staff-38

Ref: Exh A3-1-2, pages 2 and 9

OPG has stated that, "OPG must maintain CGAAP financial records for regulatory reporting purposes until its payment amounts are reset to ensure that information is reported on the same basis upon which the current payment amounts were established...the adoption of USGAAP for regulatory purposes would allow OPG to maintain a single accounting system once new USGAAP-based payment amounts are established."

a) Given that the CGAAP financial records for regulatory reporting purposes continue until OPG's payment amounts are reset in the future, why could OPG not make a request to use USGAAP for regulatory purposes at the time when the next payment amounts application is filed?
b) Are there any savings associated with the cost of recording-keeping in the near term if the Board approves the use of USGAAP for regulatory purposes in this application considering that OPG's payments amounts would not be reset under USGAAP until a cost of service application is subsequently filed?

6-Staff-39

Ref: Exh A3-1-2

OPG has identified only the LTD benefits as the key financial impact in the transition to USGAAP, the impact of which was recorded in the USGAAP Deferral Account. If OPG's request to use USGAAP for regulatory purposes is approved, should the USGAAP Deferral Account be closed to any new principal entries effective on January 1, 2013, except for the transitional LTD benefits until new payment amounts are set?

6-Staff-40

Ref: Exh A3-1-2

OPG provided some benefits (and no disadvantages) for using USGAAP compared to the alternative of adopting IFRS for financial accounting and ratemaking purposes.

a) Please provide specific details for 2011 and 2012 including quantification of the financial accounting and ratemaking impacts in the revenue requirement arising from changes to capitalization under IFRS for, among other things, indirect administrative and general overhead costs and preconstruction project costs
b) Please provide the estimated 2011 and 2012 impacts arising from differences in the timing of recognition of certain waste management costs due to their re-categorization from fixed costs under CGAAP to variable costs under IFRS.
c) Please provide the estimated 2011 and 2012 impacts arising from any treatment change to LTD benefits for financial accounting and revenue requirement purposes under IFRS?

d) Please provide the estimated 2011 and 2012 impacts arising from any treatment change to accretion rates for financial accounting and revenue requirement purposes under IFRS?

6-Staff-41

Ref: Exh A3-1-2

In moving to USGAAP, please explain how OPG could be benchmarked going forward and identify other utilities that would be comparable (e.g., cohort group) for benchmarking purposes.

6-Staff-42

Ref: Exh A3-1-2

If IFRS does not permit regulatory accounting (e.g., recognition of regulatory assets and liabilities) effective for 2015, does OPG plan to seek further exemption relief from the Ontario Securities Commission in order to continue USGAAP for financial reporting purposes?

6-Staff-43

Ref: Exh A3-1-2

In the revised 2012 *Accounting Procedures Handbook for Electricity Distributors,* Article 100 at page 3 and 4, it states, “For ratemaking under an alternative accounting framework [e.g., USGAAP and ASPE under Part II of the CICA Handbook], the Board may require or prescribe accounting procedures and requirements in such items as depreciation methodology, capitalization policy, employee benefit recovery, and specified deferral and variance accounts.”

Does OPG plan to proactively implement IFRS-based rules in its next cost of service application for the Board’s review, and if not, please provide an explanation?

Issue 7
Is OPG’s forecast of accounting differences between CGAAP and USGAAP appropriate?

7-Staff-44

Ref: Exh A3-1-2

a) Other than the three issues identified on adoption of USGAAP for regulatory accounting purposes that produced financial impacts (LTD, SR&ED tax credits, Bruce Lease Base Rent), please indicate whether other potential issues were identified by OPG, its auditors or its consultants, which may cause financial impacts while reporting under USGAAP in the 2013 to 2014 period. If so, please identify these and their potential financial impacts.
b) OPG had completed IFRS transition accounting work prior to its adoption of USGAAP for financial reporting purposes. If OPG is required to adopt IFRS for financial accounting and/or regulatory purposes in the future, please identify the key areas of accounting changes and their associated financial impacts in moving from USGAAP to IFRS.

7-Staff-45

Ref: Exh H2-1-3 Attachment 4, pages 5 and 6

Schedules 1 and 2 show the results for the 2012 post-employment benefits plan for CGAPP and USGAAP respectively. Schedule 1 shows LTD benefits plan cost of $29.3M under CGAAP whereas Schedule 2 shows $33.3M under USGAAP. Please explain why LTD under USGAAP has increased by $4M compared to CGAAP, including the accounting changes that caused this difference in the estimation.