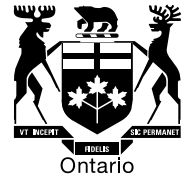


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**BY E-MAIL**

April 8, 2013

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 submission with respect to Ontario Power Generation Inc.'s draft payment amounts order relating to deferral and variance accounts and the adoption of USGAAP for regulatory purposes.

Yours truly,

*Original signed by*

Violet Binette  
Project Advisor, Applications & Regulatory Audit

Attach

ONTARIO POWER GENERATION INC.  
DEFERRAL AND VARIANCE ACCOUNTS  
AND USGAAP  
DRAFT PAYMENT AMOUNTS ORDER

EB-2012-0002

**Board Staff Submission**

April 8, 2013

## Introduction

Ontario Power Generation Inc. (“OPG”) filed an application, dated September 24, 2012, with the Ontario Energy Board under section 78.1 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) seeking approval for an order or orders related to deferral and variance accounts, including disposition of balances as at December 31, 2012, and the adoption of the Generally Accepted Accounting Principles of the United States (“USGAAP”) for regulatory accounting purposes.

A settlement agreement, that reflected settlement on all issues, was filed on March 14, 2013. At a settlement hearing held on March 25, 2013, OPG presented the settlement agreement to the Board. In an oral decision, the Board approved the settlement agreement and made provision for the filing of a draft payment amounts order (“DPO”) and a submission process. The following are Board staff’s comments regarding the DPO filed by OPG on April 1, 2013.

## Payment Amount Rider Nomenclature

At pages 2 and 3 of the DPO the hydroelectric riders for the amortization of approved balances are described. Board staff submits that a different rider nomenclature, as described below, would have more enduring value for tracking purposes.

Effective	Rider	Draft Payment Order	Board Staff Submission
January 1, 2013 to December 31, 2013	\$3.04/MWh	Hydroelectric Rider A	Hydroelectric Rider 2013-A
March 1, 2013 to December 31, 2013	\$0.58/MWh	Hydroelectric Rider B	Hydroelectric Rider 2013-B
January 1, 2014 to December 31, 2014	\$2.02/MWh	Hydroelectric Rider A	Hydroelectric Rider 2014-A

Board staff submits that similar nomenclature should apply to the nuclear payment amount riders described on page 3 of the DPO.

## Continuing Deferral and Variance Accounts

A list of deferral and variance accounts is provided on page 4 of the DPO. It states that OPG shall continue making entries in these accounts. Board staff submits that the “Pickering Life Extension Depreciation Variance Account” is a **new** account and should be removed from the list of **continuing** accounts.

## **Appendix A**

Appendix A of the DPO is a series of tables that show the calculation of payment amount riders, amortization and consumer impact. As these tables are replicated from the settlement agreement, Board staff submits that it would be helpful, for cross reference purposes, to provide a footnote reference to the corresponding tables in the settlement agreement.

## **Appendix B**

### **Clearance of Deferral and Variance Accounts**

At page 1 of Appendix B, it states that, "...the Board approves December 31, 2012 balances in these accounts, as provided in column (c) of Tables 1 and 2 of Appendix A and as provided in column (a) of Tables B-1 and B-2, below."

- As these balances include amounts that parties agreed would be deferred for consideration in future proceedings, Board staff submits that this statement is inaccurate. For example, column (c) of Table 2 of Appendix A includes \$30.2M for the Nuclear Development Variance Account and column (a) of Table B-2 includes \$1.3M for the Capacity Refurbishment Variance Account – Nuclear.
- In terms of consistency, Board staff notes that column (c) of Tables 1 and 2 of Appendix A sum to \$1,267.1M while column (a) of Tables B-1 and B-2 sum to \$1,234.0M.

Board staff submits that statements regarding the amounts reviewed, adjusted, settled, recovered in 2013 and 2014, and unrecovered are required. Board staff suggests the following:

For greater clarity, the 2012 total audited balances for the hydroelectric and nuclear deferral and variance accounts were \$1,274.4M, of which \$34.3M in relation to five accounts was set aside for review in a future proceeding. The account balances reviewed in this proceeding totaled \$1,240.1M, which was reduced by \$100.3M due to negotiated reductions and adjustments resulting in total balances settled for recovery of \$1,139.8M. After the approved recovery of \$633.0M in the 2013 and 2014 period, the total outstanding "unrecovered balance" at the end of 2014 is \$506.8M which includes an advancement of \$81.4M for the Nuclear

Liability Variance Account not recovered in the 2013-2014 recovery period  
(and added back as recoverable at the end of 2014).

### **Deferral and Variance Account Descriptions**

OPG has provided descriptions of each deferral and variance account in Appendix B of the DPO. Board staff agrees with the majority of the updated descriptions, but provides comments on the following:

#### Authorization

At pages 1 and 2 of Appendix B, there is reference to deferral and variance accounts “established by” or “authorized by” O. Reg. 53/05 and Board decisions and orders in EB-2007-0905, EB-2009-0038, EB-2009-0174, EB-2010-0008, EB-2011-0090 and EB-2011-0432. Board staff submits that noting the authorization in the description of each of the deferral and variance accounts would assist with future reference.

#### Monthly Reference Amount

The account description for seven accounts state that, “The monthly reference amounts shall be 1/24 of the total forecast amount underpinning the two-year revenue requirement approved in EB-2010-0008 for 2011 and 2012.” Board staff submits that for greater clarity, the monthly reference dollar amount should be stated in the description.

The seven accounts are:

- Ancillary Services Net Revenue Variance Account – Hydroelectric
- Income and Other Taxes Variance Account
- Pension and OPEB Cost Variance Account
- Nuclear Development Variance Account
- Ancillary Services Net Revenue Variance Account – Nuclear
- Capacity Refurbishment Variance Account
- Bruce Lease Net Revenues Variance Account

#### Hydroelectric Water Conditions Variance Account

Board staff submits that the following revisions would assist with clarity:

Therefore, for each month after 2012, OPG shall determine energy production based on actual flows by entering actual water flow values into the 2011 and 2012 forecast models and computing an average of the resulting imputed monthly energy values from the two models. OPG shall determine the revenue impact of the production variance by multiplying the actual production deviation from forecast production, as described above, by the EB-2010-0008 approved regulated hydroelectric payment amount of \$35.78/MWh. The resulting amount shall be recorded in the Hydroelectric Water Conditions Variance Account. OPG shall also continue to record in this account changes in the gross revenue charge costs reflected in the revenue requirement approved by the Board as a result of differences in forecast and actual energy production described above. OPG shall determine amounts to be recorded in this account by multiplying the production deviation as described above by the applicable gross revenue charge rate.

#### Pension and OPEB Cost Variance Account

The account description states that, “To the extent the actual interest amounts during the period from January 1, 2013 to December 31, 2014 related to the Historic Recovery component are different from those used in establishing amortization amounts in this order, OPG shall record such differences in the Hydroelectric and Nuclear Deferral/Variance Over/Under Recovery Variance Accounts.” For all approved balances, interest always continues in the specific accounts for the unamortized balances as the amounts are drawn down. Rather than use the treatment proposed in the DPO, Board staff submits that an interest sub-account should be used to record interest associated with the Historic Recovery.

On page 2 of Appendix B, recovery periods for this account are referred to in months, while on page 6, the recovery period is in years. Board staff submits that it would be helpful to have consistent reference to recovery period in years in the DPO.

#### Hydroelectric Surplus Baseload Generation Variance Account

The account description provided in the DPO is considerably abbreviated from the description provided in the EB-2010-0008 Payment Amounts Order. Board staff submits that the DPO should include the EB-2010-0008 description.

### Bruce Lease Net Revenues Variance Account

For greater clarity, Board staff submits that the description of the derivative sub-account should include the description provided in the settlement agreement, specifically the following:

For the derivative sub-account, the amount to be cleared each year, starting in 2013, shall be equal to the amount of the rebate forecast to be payable to Bruce Power for that year by OPG and associated income tax impacts as described above less the difference between the following amounts to the extent this difference has not yet been credited to, or recovered from, ratepayers:

- (i) cumulative amount recovered from ratepayers for the derivative portion since April 1, 2008 ; and
- (ii) cumulative amount of actual rent rebates and associated income taxes (as described above) incurred by OPG since April 1, 2008.

### **Interest**

Board staff submits that the following sentence should be revised to include “not”, to be consistent with the settlement agreement: “Effective January 1, 2013, OPG shall **not** record interest on the balances of the Nuclear Liability Deferral Account, the Pension and OPEB Cost Variance Account, the Bruce Lease Net Revenues Variance Account and the Pickering Life Extension [Depreciation] Variance Account as set out in the preceding section of this Appendix B.”

### **General**

Board staff notes that the page numbering of Appendix B is not consistent and requires re-formatting.

All of which is respectfully submitted