

September 26th, 2013

Overnight Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Discovery of Inadvertent Error re: EB-2012-0002

The purpose of this letter is to advise the OEB and Intervenor of an inadvertent error made by OPG in respect of a calculation included in the Settlement Agreement approved by the OEB in EB-2012-0002.

The error was discovered by OPG during its preparations for its planned 2014 - 2015 Payment Amounts Application.

The Nature of the Error

Table 14c attached to the Settlement Agreement as part of Attachment 2 and labelled "Balance for Recovery of Derivative Portion of Bruce Lease Net Revenues Variance Account (\$M)" inadvertently included a calculation error in Note 4 to the table.

The error was due to the use of the wrong income tax rate which is explained in greater detail below.

The purpose of the table was to calculate the amount of money that OPG needed to recover from the Bruce Lease Net Revenues Variance Account over 2013 and 2014 in order to match the amount of rent rebate that it had paid, or expected to pay to the end of 2014, to Bruce Power, net of any prior period recoveries in rates. This was part of an agreement between the parties to move to a new disposition methodology for this account (described in greater detail on page 17 of the Settlement Agreement in EB-2012-0002).

In Note 4 to Table 14c, OPG calculated the derivative portion included in the December 31, 2010 balance in the Bruce Lease Net Revenues Variance Account. As part of that calculation, in line 2a of Note 4, OPG calculated the income tax impact of the derivative portion by applying the current tax rates for 2009 and 2010 of 31% and 29%, respectively, to the entire derivative portion of the account additions shown in line 1a of the Note. However, OPG should have used the long term tax rate of 25% for the part of these additions due to the change in the fair value of the derivative since this was the rate used to calculate the amount of the future tax expense previously recorded in the account in respect of changes in the fair value of the derivative.

As can be seen in the attached corrected Table 14c, this error means that the amount to be recovered from ratepayers during 2013 - 2014 is overstated by \$8.9M (e.g. \$67.5M (original calculation) vs. \$58.6M (corrected calculation) in line 17 of the table).

Proposed Solution

OPG proposes to correct this inadvertent error during the next disposition of the balance in the Bruce Lease Net Revenues Variance Account – Derivative Sub-Account by reducing by \$8.9M (plus interest at the OEB approved rate) the amount that would be otherwise recoverable from ratepayers. OPG expects the next disposition to commence in 2015.

OPG very much regrets this inadvertent error. Please contact me if you have any questions regarding this matter.

Respectfully submitted,



Andrew Barrett
Vice President
Regulatory Affairs

CC: Intervenor of Record, EB-2012-0002
Charles Keizer, Torys

Settlement Agreement

Table 14c

Balance for Recovery of Derivative Portion of Bruce Lease Net Revenues Variance Account (\$M)

As at December 31, 2012

Line No.	Particulars	Amount at Dec. 31, 2012
		(a)
	<u>Amount for Recovery in 2013 and 2014 Before Prior Recovery Adjustment</u>	
	2012:	
1	Actual Supplemental Rent Payment Reduction (Partial Rebate)¹	77.9
2	Less: Income Tax Impact² (line 1 x 2012 tax rate of 25%)	19.5
3	Net Rent Payment Reduction	58.4
	2013:	
4	Estimated Supplemental Rent Payment Reduction (Partial Rebate)³	80.3
5	Less: Income Tax Impact² (line 4 x expected 2013 tax rate of 25%)	20.1
6	Net Rent Payment Reduction	60.2
	2014:	
7	Estimated Supplemental Rent Payment Reduction (Partial Rebate)³	82.9
8	Less: Income Tax Impact² (line 7 x expected 2014 tax rate of 25%)	20.7
9	Net Rent Payment Reduction	62.2
10	Total Amount for Recovery in 2013 and 2014 Before Prior Recovery Adjustment	180.8
	(line 3 + line 6 + line 9)	
	<u>Prior Recovery Adjustment</u>	
11	EB-2010-0008 Approved Account Balance at Dec. 31, 2010 - Derivative Portion of Additions⁴	170.1
12	Less: 2009 Actual Supplemental Payment Reduction (Partial Rebate)⁵	69.4
13	Add: Income Tax Impact of 2009 Rebate (line 12 x 2009 tax rate of 31%)	21.5
14	Prior Recovery Adjustment	122.3
	<u>Amount for Recovery in 2013 and 2014 After Prior Recovery Adjustment</u>	
15	2013 Amortization of December 31, 2012 Account Balance (line 3 + line 6 - line 14)	(3.6)
16	2014 Amortization of December 31, 2012 Account Balance (line 9)	62.2
17	Total Amount for Recovery in 2013 and 2014	58.6

Notes:

- From Ex. H1-1-2 Table 14b, col. (b), line 15 and as discussed in Ex. H1-1-2, section 3.3.1.1.
- Represents income tax impact of the reduction in taxable income (or increase in tax loss) arising from the supplemental rent payment reduction.
- From Ex. H1-1-2 Attachment 4, page 1, line "Full Rent Rebate".
- The derivative portion of account additions in the EB-2010-0008 approved December 31, 2010 balance in the Bruce Lease Net Revenues Variance Account is calculated as follows:

Line No.		Year Ended Dec. 31, 2009	Year Ended Dec. 31, 2010	Total at Dec. 31, 2010
		(a)	(b)	(c)
1a	Increase in Fair Value of Bruce Lease Embedded Derivative During 2009 (from EB-2010-0008 Ex. G2-2-1, section 4.5)	118.0	45.0	163.0
2a	Reduction to Revenue for the 2009 Partial Rent Rebate (from line 12)	69.4	-	69.4
3a	Less: Income Tax Impact (line 1a x tax rate of 25% for 2009, 25% for 2010)	29.5	11.3	40.8
4a	Less: Income Tax Impact (line 2a x tax rate of 31% for 2009, 29% for 2010)	21.5	-	21.5
5a	Derivative Portion of Account Additions (line 1a + line 2a - line 3a - line 4a)	136.4	33.8	170.1

- As discussed in EB-2010-0008, Ex. G2-2-1, section 4.5.