Board Staff Interrogatory #175

Ref: Exh G1-1-1 page 5

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

OPG states "With the addition of the Niagara Tunnel, OPG's diversion capability increased to approximately 2,400 cubic meters/second. The increase in water utilization will result in significantly decreased WT volumes."

a) Since the Niagara Tunnel went into service what has been the actual increase in water utilization?

b) What would be the change in WT volumes over the 2009 to 2011 period (the period OPG used in its analysis of potential volume decreases) if the actual utilization rate was used instead of the "capable rate"?

c) What percentage decrease in WT volumes would this actual diversion rate represent?

Response

a) The incremental volume of water diverted to the SAB plants in 2013 with the new tunnel in service was approximately 1,127,628,000 m^3.

b) The maximum hourly Beck diversion reported during 2013 was 2,328 m^3/s. Applying this maximum diversion to the water transaction analysis for the 2009 to 2011 period (Chart 2, Ex. G1-1-1, page 7) yields an estimated water transaction volume of 622,206 m^3/s-hr, which represents a decrease in water transaction volume of 1,140,702 m^3/s-hr from the actual water transactions reported in Chart 1 of Ex. G1-1-1 (page 6).

c) Consistent with the estimate included as part of OPG's prefiled evidence at Ex. G1-1-1, page 7, at lines 5-6, the actual diversion rate yields a percentage decrease in water transaction volumes of 65 per cent between the actual water transactions from January 2009 to December 2011 and an estimate of potential water transactions with the additional tunnel capability, using the maximum reported Beck diversion since the tunnel has been in service.

Board Staff Interrogatory #176

Ref: Exh G1-1-1 Table 1

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

OPG's evidence discusses the various types of ancillary services provided by OPG and the contract provisions with the IESO.

a) What are the pricing provisions in the black start, reactive support/voltage control service, and regulation service contracts with the IESO?

b) Are contract prices fixed over the test period or are there provisions for escalation based on an index or a market-determined price, i.e., HOEP?

c) Operating reserve (OR) is a market-based sale with prices determined by the IESO. OPG assumes that revenues in the test period will be an inflationary increase of the 2012 actual revenues.
   i. Are OPG's revenue estimates for OR based on no increase in OR services provided and strictly an inflationary price increase?
   ii. What evidence does OPG have that historical changes in OR prices are correlated with OPG's BP inflation measures?

d) Please provide a table with the estimated test period revenues by service provided instead of an aggregate for all services.

Response

a) Under the Black Start contract, OPG receives an availability payment and can recover additional compensation if activated during a Black Start event.

   Under the Reactive Support/Voltage Control Service ("RSVC") contract, OPG receives an availability payment, variable use-of-service payment and a unit start-up payment. Energy losses during provision of the service are priced at HOEP.

   Under the Regulation Service contract, OPG receives a fixed availability payment with additional variable payments based on the amount of usage. The fixed and variable payments change depending on what resource or resources are providing Regulation Service and the amount of Regulation Service requested by the IESO.

b) Both. Fixed availability payments do not change over the term of the contract. However, most variable payments are indexed to operating reserve and/or energy market prices.

c) i) Yes.
ii). Since 2007, Previously Regulated Hydroelectric Operating Reserve revenues have grown at an average of 2% per annum. As a result, OPG anticipates this same rate of growth over the test period. OPG has not analyzed the relationship between OR prices and the broad economic inflationary measures.

d) Estimated test period revenues by Ancillary Service are shown below.

Estimated Test Period Revenues by Ancillary Service		
Service	**2014 $M**	**2015 $M**
Black Start	[redacted]	[redacted]
Operating Reserve	[redacted]	[redacted]
RSVC	[redacted]	[redacted]
AGC	[redacted]	[redacted]
Total	**54.9**	**56.0**

AMPCO Interrogatory #074

Ref:
Exhibit G1, Tab 1, Schedule 1, Other Revenues Regulated Hydroelectric
Preamble: With respect to Ancillary Services, OPG negotiated a Black Start Capability agreement (May 1, 3013 to April 30, 2016), a Reactive Support Voltage Control Service Agreement (January 1, 2013 to December 31, 2015 and a contract for Regulation Service (May 1, 2013 to April 30, 2014).

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

a) Please discuss significant changes in the current negotiated contracts compared to prior contracts.

b) Please discuss the impact of market conditions on other revenues for the test period.

c) The contract for Regulation Service is in effect until April 30, 2014. What assumptions has OPG made with respect to pricing for the balance of the test period.

Response

a) The table below outlines the significant changes to contract terms between the ancillary service contracts currently in place and the prior contracts.

Ancillary Service Contract	**Changes**
Reactive Support/Voltage Control	No significant changes.
Black Start	No significant changes.
Regulation Services	Regulation service from Sir Adam Beck is updated to incorporate the effects of the third tunnel. Part of the fixed payment is based on the prevailing regulated rate instead of forecasted HOEP. The fixed payment is based on a lower amount of regulation service (100 MW instead of 120 MW).

b) Refer to Ex. L-7.1-1 Staff-176 parts a) and b).

c) OPG's forecast of Regulation Service revenue is based on actual revenues escalated by inflation over the test period.

AMPCO Interrogatory #075

Ref: Exhibit G1, Tab 1, Schedule 1, Other Revenues Regulated Hydroelectric

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

a) Page 4 – Operating Reserve - Please provide a table that shows operating revenues over the period 2010 to 2013 and 2014 and 2015 plan. Please explain any significant variances.

Response

Operating Reserve ($M)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Plan	2015 Plan
Niagara Plant Group and Saunders GS:	2.7	2.9	2.3	8.1	6.9	7.1
Newly Regulated Hydroelectric	9.9	8.7	5.2	17.5	4.5	4.5

There is a significant variance in 2013 operating reserve (“OR”) revenues for Regulated and Newly Regulated facilities relative to 2012 owing to substantially higher OR prices. OPG does not undertake an analysis of OR prices. However, OPG observed there were fewer available hydro resources and less available coal generation which may have contributed to higher OR prices in 2013.

AMPCO Interrogatory #076

Ref: Exhibit G1, Tab 1, Schedule 2, Comparison Other Revenues Regulated Hydroelectric

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

a) Page 3 – Please explain the reason for the lower operating reserve prices and lower than expected regulation services revenues for 2012 actual compared to 2012 Board approved.

Response

OPG does not model the operating reserve market ("OR") to produce a forecast of OR prices or engage in retrospective OR market price analysis. OPG estimates OR prices based on prior year actual results and may include adjustments to reflect a view of market conditions at the time. [EB-2010-008, Ex. G1-1-1, page 4].

OPG does not model a forecast of Regulation Services revenue or engage in retrospective Regulation Services revenue analysis. OPG's expectation of regulation services revenue is described in Ex. L-7-1 AMPCO-074 part c.

LPMA Interrogatory #015

Ref: Exhibit G1, Tab 1, Schedule 1

Issue Number: 7.1
Issue: Are the proposed test period revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

Please update Table 1 to reflect actual data for 2013.

Response

Table 1
Other Revenues - Previously Regulated Hydroelectric and Newly Regulated Hydroelectric ($M)

Line No.	Revenue Source	2010 Actual	2011 Actual	2012 Actual	2013 Budget	2013 Actual	2014 Plan	2015 Plan
		(a)	(b)	(c)	(d)		(e)	(f)
	Niagara Plant Group and Saunders GS:							
1	**Ancillary Services**	26.2	22.2	20.8	17.8	37.1	18.1	18.5
2	**Segregated Mode of Operation**	(0.9)	1.7	(0.8)	1.6	4.1	0.0	0.0
3	**Water Transactions**	5.5	7.5	1.6	6.0	1.0	1.7	1.7
4	**HIM Revenue Requirement Adjustment**				6.5	6.5	N/A	N/A
5	**Subtotal**	30.8	31.5	21.6	31.8	48.6	19.9	20.2
	Newly Regulated Hydroelectric:							
	Ottawa-St. Lawrence, Central, Northeast and Northwest Plant Groups:							
6	**Ancillary Services**	26.4	26.1	25.9	22.2	35.7	22.7	23.1
7	**Segregated Mode of Operation**	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	**Subtotal**	26.4	26.1	25.9	22.2	35.7	22.7	23.1
9	**Total**	57.2	57.6	47.5	54.1	84.3	42.5	43.3

LPMA Interrogatory #016

Ref: Exhibit G2, Tab 1, Schedule 1

Issue Number: 7.2
Issue: Are the forecasts of nuclear business non-energy revenues appropriate?

Interrogatory

Please update Table 1 to reflect actual data for 2013.

Response

Refer to Ex. L-1.0-1 Staff-002 Attachment 1, Table 35.

SEC Interrogatory #124

Ref: G2-T1-S1-Table 1

Issue Number: 7.2
Issue: Are the forecasts of nuclear business non-energy revenues appropriate?

Interrogatory

Please update Table 1 to show actual 2013 actual results and include columns for all Board Approved amounts.

Response

The requested table is provided below.

Table 1
Other Revenues - Nuclear ($M)

Line No.	Revenue Source	2010 Actual	2011 Board Approved	2011 Actual	2012 Board Approved	2012 Actual	2013 Actual	2014 Plan	2015 Plan
	NGD-Related Revenues:								
1	**Heavy Water Sales & Processing**	26.7	22.9	80.9	21.9	55.1	34.8	26.3	20.4
2	**Isotope Sales (Cobalt 60 + Tritium)**	10.1	9.6	4.8	11.0	11.5	7.0	11.6	11.9
3	**Inspection & Maintenance Services**	36.0	19.7	7.1	0.0	4.1	0.0	0.0	0.0
4	**Helium-3 Sales**	0.0	0.0	0.0	0.0		0.0	0.0	4.0
5	**Total NGD-Related Revenues**	72.8	52.2	92.9	32.9	70.6	41.8	38.0	36.3
6	**NGD-Related Direct Costs**	31.5	18.3	10.7	6.6	8.7	5.9	6.8	7.8
7	**NGD-Related Contribution Margin**	41.3	33.8	82.2	26.2	61.9	35.9	31.2	28.5
8	**Ancillary Services**	2.6	2.9	2.4	3.0	1.8	1.7	1.9	1.9
9	**Other**	0.8	0.1	0.6	0.1	0.1	0.0	0.1	0.1
10	Total	44.7	36.8	85.1	29.3	63.8	37.6	33.2	30.5

Board Staff Interrogatory #177

Ref: Exh. G2-2-1 Pages 3-5

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

In respect of the partial rebate for supplemental rent revenue in relation to the Bruce derivative used for accounting purposes:

a) Has the condition in the Bruce Lease of an "Average HOEP falling below $30/MWh" been triggered in 2013 to give rise to a recognition of an adjustment to the fair value of the derivative liability and revenue in 2013?
b) If so, please provide the changes in the fair value of the derivative and associated income tax impacts on Bruce Lease net revenues.

Response

a) The question incorrectly assumes that the triggering of the cited condition results in an adjustment to the fair value of the Bruce derivative liability and revenue. This is not the case, as explained below.

   As noted at Ex. G2-2-1, page 4, lines 26-30, changes in fair value and revenue occur as a result of changes in the present value of the probability-weighted expectations of the partial rent rebate occurring 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.

   As previously illustrated in detail in EB-2012-0002, Ex. L-1-1 Staff-09, the actual triggering of the rebate as a result of the Average HOEP falling being below $30/MWh for a particular year results in a reduction to the previously accumulated derivative liability and a decrease in cash/increase in accounts payable. There is no impact on revenue at the actual triggering of the rebate.

   For 2013, the Average HOEP was below $30/MWh, triggering a rebate payable to Bruce Power of $78.7M.

b) As per part (a), there was no change in the fair value of the derivative as a result of the actual triggering of a rebate in 2013.

Board Staff Interrogatory #178

Ref: Exh. G2-2-1 Pages 3-5 and Tables 1, 3 and 5
Exh H1-3-1 pages 12-13

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Regarding the partial rebate for supplemental rent revenue in relation to the Bruce derivative, if there are changes in the fair value of the derivative and associated income tax impacts on Bruce Lease net revenues effective from 2013:

a) Does OPG intend to reduce the Bruce revenue to the extent of the changes in the fair value of the derivative in any given year?
b) If so, would OPG adopt a similar procedure used for the Bruce Lease Net Revenues Variance Account for the derivative portion? This amount would be offset by the difference in the cumulative amount recovered from ratepayers for the derivative portion since April 1, 2008 and cumulative amount of actual rent rebates and associated income taxes incurred by OPG since April 1, 2008. If not, please explain.

Response

a) OPG is required under US GAAP to adjust its accounting records, including Bruce Lease revenues, to reflect changes in the fair value of the Bruce derivative as they occur. The OEB has previously directed that OPG's Bruce lease costs and revenues be determined using generally accepted accounting principles for unregulated entities.

OPG does not forecast changes in future expectations of HOEP as part of its business planning process as this would be impractical and largely speculative. OPG's 2013 - 2015 Business Plan (as well as the 2014 - 2016 Business Plan) were based on the actual value of the Bruce derivative at a point in time. As such, as noted in Ex. G2-2-1, page 5, lines 4-8, the forecast Bruce Lease net revenues for the bridge and test years (and, therefore, the revenue requirement for the nuclear base payment amounts) have not been affected by changes in the fair value of the derivative.

The impact of changes in the fair value of the Bruce derivative, including the actual change during 2013, is recorded in the Bruce Lease Net Revenues Variance Account.

b) No, use of such a procedure in determining Bruce lease net revenues would not be in accordance with US GAAP for unregulated entities (and, therefore, the OEB's direction).

Board Staff Interrogatory #179

Ref: Exh G2-2-1 Table 4 and Exh C1-1-1 Tables 3 and 4

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Exh C1-1-1 Tables 3 set out the ARO Adjustment of $1,363.5M arising from the approved Ontario Nuclear Funds Agreement ("ONFA") Reference Plan effective January 1, 2012, which was also reviewed and approved for ratemaking in the EB-2012-008 proceeding. However, with respect to Bruce Net Fixed Assets per Exh C1-1-1 Tables 4 (line 14, column g), an amount of $725.6M for 2012 was added instead of the approved amount of $706.6M per Exh C1-1-1 Tables 3 (line 2, column c).

Exh C1-1-1 Table 4 (line 4, column d) "New CNSC Requirements Adjustment" of $19.5M is explained in Note 4 as follows:

> Represents implementation, in accordance with GAAP, of new CNSC requirements in 2012 to include certain facilities with Waste Nuclear Substance Licenses not included in the 2012 ONFA Reference Plan due to timing of notification by the CNSC. As a result, ARO increased by $2.4M to include a legacy facility not used to support OPG's current operations, of which $1.3M is attributed to prescribed facilities and $1.1M is attributed to Bruce facilities. In accordance with GAAP, this amount was expensed (i.e., not included in ARC) in 2012. ARO increased by a further $19.5M to include a facility dedicated to supporting the Bruce facilities. In accordance with GAAP, this amount was included in ARC.

It appears that this incremental adjustment is outside the scope of the government approved ONFA Reference Plan or the Board approved amounts shown in Exh C1-1-1 Tables 3. If this is the case, please adjust the Bruce Net Fixed Assets Exh C1-1-1 Tables 4 (line 14, column g) to reflect $706.6M and make the consequential adjustments accordingly.

Response

The amount of $19.5M was recorded as an ARO and ARC increase in accordance with generally accepted accounting principles ("GAAP") as explained in the referenced note to Ex. C2-1-1 Table 3. The $19.5M impact results from a CNSC regulatory requirement and represents an incremental cost to OPG. The consequential impacts of this change have also been determined in accordance with GAAP and are reflected in the Bruce Lease net revenues presented in Ex. G2-2-1. This treatment is required by the OEB's direction that OPG's Bruce Lease net revenues be determined in accordance with GAAP for unregulated entities. As such, it would not be appropriate to remove the $19.5M adjustment and its consequential impacts from the calculation of Bruce Lease net revenues in this application.

Notwithstanding the above, OPG provides in Attachment 1 the requested version of Ex. G2-2-1, Table 4 without the $19.5M ARC adjustment. This would have a net effect of increasing Bruce Lease net revenues for 2013-2015 by $2.6M per year, with annual depreciation and accretion expenses being reduced by $2.8M and $0.7M, respectively, and the deferred income tax expense increasing by $0.9M per year.

In responding to this question, OPG has assumed that the reference to Ex. C1-1-1 Tables 3 in the first sentence of the question should be to Ex. C2-1-1 Table 4 (Lines 7 + 14, Col H) and that the reference to “EB-2012-008” should read “EB-2012-0002.”

Separately, OPG notes that the amount and nature of the $19.5M adjustment presented at Ex. C2-1-1, Table 3, col. (c) and Ex. C2-1-1, Table 4 were fully disclosed in and are the same as those provided in EB-2012-0002, Ex. H1-1-2, Table 19, col. (c) and Table 20, respectively. In particular, EB-2012-0002 Ex. H1-1-2, Table 19 contained Note 4, which is substantially the same as Note 4 in Ex. C2-1-1 Table 3 referenced in the question.

The December 31, 2012 balance of the Bruce Lease Net Revenues Variance Account authorized for recovery by the OEB in EB-2012-0002 included a portion of the New CNSC Requirements Adjustment. Specifically, EB-2012-0002 Ex. H1-1-2, Table 19, Note 4 noted that the new CNSC requirements not only resulted in an ARC increase of $19.5M but also an additional expense of $1.1M in 2012. The supporting schedule for the December 31, 2012 balance of the Bruce Lease Net Revenues Variance Account at EB-2012-0002 Ex. H1-1-2, Table 14a explicitly noted that this expense was included in the calculation of Bruce Lease net revenues, in Note 2.

Numbers may not add due to rounding.

Table 1

Hypothetical Bruce Net Fixed Assets ($M)

Line No.	Item	2010 Actual	2011 Actual	2012 Actual	2013 Budget	2014 Plan	2015 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Opening Net Book Value**	1,073.2	854.9	1,316.7	1,943.9	1,840.0	1,736.0
2	**Add: Nuclear Liabilities Adjustments**[1]	(182.4)	495.1	706.1	0.0	0.0	0.0
3	**Add: Additions**	0.0	0.0	0.0	0.0	0.0	0.0
4	**Less: Depreciation**	35.8	33.2	78.9	104.0	104.0	104.0
5	**Closing Net Book Value**	854.9	1,316.7	1,943.9	1,840.0	1,736.0	1,632.1

Notes:

1 Represents changes in Bruce asset retirement costs from Ex. C2-1-1 Table 3 (line 22 for 2010, line 26 for 2011, line 26 for 2012).

LPMA Interrogatory #017

Ref: Exhibit G2, Tab 2, Schedule 1

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Please update Tables 1 through 6 and Tables 8 and 9 to reflect actual data for 2013.

Response

Refer to Ex. L-1.0-1 Staff-002, Attachment 1, Tables 36 - 38.

SEC Interrogatory #125

Ref: A1-3-2/p.6

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Please provide a detailed calculation of the impact on nuclear payment amounts in the Test Year of all reductions to the Bruce Lease Net Revenues. Please include the gross revenues, before reductions, an explanation of each cost component that reduces or increases those revenues (including the $190.8 million new reduction listed in the table), the revenue requirement impact of all reductions, and the resulting increase in payment amounts. (The intent of this question is to determine the difference between the impact on the payment amounts of the Bruce Lease before reductions in lease payments, and the impact after those reductions, and thus the level of payment amounts that would arise if the Bruce Lease did not require the Applicant and its ratepayers to bear some of the costs of Bruce Power.)

Response

As shown in Ex. G2-2-1, Table 1, the Bruce Lease net revenues represent OPG's revenues under the Bruce lease and associated agreements ("Bruce Lease") less the costs OPG incurs in respect of the Bruce Nuclear Generating Stations ("Bruce Lease Costs"). These amounts are determined in accordance with generally accepted accounting principles for unregulated entities, as directed by the OEB's EB-2007-0905 Decision with Reasons.

As shown in Ex. G2-2-1, Table 1, line 9, cols. (e) and (f), the amount of the Bruce Lease net revenues (i.e., Bruce Lease revenues less Bruce Lease Costs) reducing the test period revenue requirement is $39.7M in 2014 and $40.6M in 2015 ($80.5M total test period). OPG's Bruce Lease revenues are shown in Ex. G2-2-1 Tables 2 and 3, and are discussed in detail in Ex. G2-2-1, section 4.0. OPG's Bruce Lease Costs, including costs reflecting the impact of the current approved ONFA Reference Plan, are shown in Ex. G2-2-1 Tables 6 and 7, and are discussed in detail Ex. G2-2-1, section 5.0.

The amount of $190.8M shown at Ex. A1-3-2 Chart 2 is the difference between the 2014-2015 test period Bruce Lease net revenues of $80.3M and the 2011-2012 test period amount of $271.1M reflected in the EB-2010-0008 approved nuclear payment amounts (EB-2010-0008 Payment Amounts Order, Table 2, col. (i), line 20).

Using Bruce Lease Costs to reduce Bruce Lease revenues in determining the amount of net revenues used to reduce the payment amounts pursuant to O. Reg. 53/05 Section 6(2)10 is in accordance with Section 6(2)9 of O. Reg. 53/05. Section 6(2)9 specifically requires the OEB to ensure that OPG recovers all the costs it incurs with respect to the Bruce Nuclear Generating Stations.

Notwithstanding the above, the following is a calculation of the impact of the 2014 and 2015 Bruce Lease Costs on the proposed nuclear payment amounts.

$M		**2014**	**2015**	**Test Period**
(1) Bruce Lease Costs	*(Ex. G2-2-1 Table 1, line 8)*	235.0	240.6	475.6
(2) Regulatory Income Tax Impact	*(1) x 25%/(1-25%)*	78.3	80.2	158.5
(3) Total Revenue Requirement Impact	*(1)+(2)*	313.3	320.8	634.1
(4) Forecast Nuclear Production	*(Ex. N1-1-1, Chart 11)*			95.1 TWh
(5) Payment Amount Impact	*(3) / (4)*			$6.67/MWh

SEC Interrogatory #126

Ref: G2-2-1/Table 4

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Please advise, for each year, the amount of Bruce Net Fixed Assets that are included in the Applicant`s rate base for ratemaking purposes. For each year, please calculate the amount of applicable equity, the return on that equity, and the associated PILs, and advise how much, if any, of that total was or will be included in rates in that year.

Response

Bruce Net Fixed Assets are not included in rate base. The rate base is comprised of assets for prescribed facilities only. In EB-2007-0905 the OEB determined that a return on equity was not a cost and therefore it was excluded from the determination of Bruce lease net revenues. The calculation of Bruce income taxes for the test period is provided in Ex.G2-2-1 Table 8.

SEC Interrogatory #127

Ref: A1-4-1/p.8

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Please confirm that the Bruce Derivative is a current accounting charge reflecting the present value of the expected future reductions in Supplementary Lease Revenues from Bruce Power. Please confirm that the Supplementary Lease Revenues are not accounted for on a current basis, with the result that there is a mismatch, in which the reductions are recorded currently, but the revenues being reduced are not being recorded currently. Please confirm that the Settlement Agreement and Board Order in EB-2012-0002, under Issue 3, are intended to have the effect of matching the recovery of the amount of the derivative in the same year that each rebate of Supplementary Lease Revenues occurs, and that the Applicant continues to believe this is appropriate.

Response

OPG confirms that "the current accounting charge" is the change in the fair value of the Bruce Derivative determined as the change in the present value of probability-weighted expectations of reductions in supplemental rent payments by Bruce Power (via a partial rent rebate) in the future as a result of Average HOEP falling below $30/MWh. The fair value change is recorded as a component of revenue recognized for financial accounting purposes. As noted in Ex. L-7.3-1 Staff-177, the actual triggering of the partial rent rebate does not impact revenue recognized in accordance with generally accepted accounting principles. As a result, there is a timing difference in the recognition in income of the impact of the partial rent rebate for accounting purposes and the actual payments for the partial rent rebate.

As discussed in Ex. G2-2-1, page 4, supplemental rent recognition is on a cash basis as the payment is contingent on the number and operational state of the Bruce units. The Bruce Derivative impacts the amount recorded as supplemental rent, as discussed above.

OPG confirms that the intended result of the cited aspect of the EB-2012-0002 Settlement Agreement is that the impacts of the rent rebate and the associated Bruce Derivative recorded in the Bruce Lease Net Revenues Variance Account are recovered in the same year that the supplemental rent rebate actually becomes payable by OPG. OPG will continue to abide by the Settlement Agreement.

SEC Interrogatory #128

Ref: G2-2-1/Table 8

Issue Number: 7.3
Issue: Are the test period costs related to the Bruce Nuclear Generating Station, and costs and revenues related to the Bruce lease appropriate?

Interrogatory

Please confirm that prior to 2014 taxable income from the Bruce Net Revenues could be reduced through the application of the Applicant's prior year tax losses, but that commencing in 2014 there are no longer available tax loss carry forwards to apply. Please confirm that, as a result, there is a tax liability relating to the Bruce Net Revenues of $37.3 million taxes on net revenues of $48.2 million in 2014, and $39.2 million taxes on net revenues of $49.4 million in 2015. Please confirm that, prior to the application of deferred taxes, those tax liabilities have to be grossed-up for ratemaking purposes, resulting in charges to rates of $49.7 million in 2014 (compared to $48.2 million of revenues), and $52.3 million in 2015 (compared to $49.4 million of revenues). Please confirm that these tax impacts are reduced because $28.8 million of current taxes in 2014 can be offset by $28.8 million of deferred taxes, representing timing differences between accounting income and taxable income, and $30.4 million of current taxes in 2014 can be offset by $30.4 million of deferred taxes in 2015, for the same reason.

Response

OPG confirms that the utilization of post-April 1, 2008 tax losses calculated for the Bruce assets on a stand-alone basis against post-April 1, 2008 taxable income calculated on the same basis has reduced the current income tax expense included in the derivation of Bruce Lease net revenue for the period from April 1, 2008 to December 31, 2013. As shown at Ex. G2-2-1 Table 9, col. (d), line 3, on a budget basis, the above losses are fully utilized by the end of 2013. OPG therefore confirms that that there are no budgeted losses available to be applied for purposes of the Bruce Lease net revenue calculation in 2014 or 2015. OPG has provided an update for 2013 actual information in Ex. L-0-1-Staff 002 which shows that there is a small remaining tax loss of $2.3M for Bruce assets on a stand-alone basis.

OPG can confirm that, as shown at Ex. G2-2-1 Table 8, line 22, the Bruce Lease net revenues for 2014 and 2015 include a forecast current income tax expense of $37.3M and $39.2M, respectively, based on earnings before tax of $48.2M and $49.4M, respectively, shown at Ex. G2-2-1 Table 8, line 1. As indicated in note 1 to that table, earnings before tax are calculated as the difference between OPG's revenues from the Bruce lease and associated agreements and costs incurred by OPG in respect of the Bruce assets, excluding income taxes.

OPG can also confirm that, as shown at Ex. G2-2-1 Table 8, line 32, there is a forecast deferred income tax credit of $28.8M for 2014 and $30.4M for 2015, which increase Bruce Lease net revenues for the corresponding years. The deferred income tax expense/credit reflected in the

Bruce Lease net revenues is determined on a stand-alone basis in accordance with generally accepted accounting principles for unregulated entities, per the OEB's direction. As described at Ex. G2-2-1, section 5.9, p. 13 deferred income taxes reflect "the amount of tax that will be payable/recoverable in the future upon reversal of temporary timing differences between the tax basis and the accounting carrying value of items recorded in the current year," including tax benefits of tax losses incurred but not utilized in a given year.

OPG cannot confirm the gross-up description. It is not accurate to characterize the stand-alone current income tax expense calculated for the Bruce assets as being subject to a tax gross-up for ratemaking purposes. The regulatory tax treatment of all items reflected in the Bruce Lease net revenue calculation is the same. Bruce Lease net revenues effectively reduce OPG's allowed revenues and, therefore, associated regulatory income taxes. The nature of the specific components making up the calculation of the Bruce Lease net revenues does not affect this tax gross-up impact. It is the overall level of Bruce Lease net revenues that are subject to the regulatory tax gross-up. This can be seen in the calculation of regulatory income taxes at Ex. F4-2-1, Table 5, note 2, line 2a, where regulatory earnings before tax for the prescribed facilities are reduced by Bruce Lease net revenues from Ex. G2-2-1 Table 1. For example, the revenue requirement is reduced in 2014 both by the amount of Bruce Lease net revenues of $39.7M and the associated regulatory tax gross-up of $13.2M ($39.7M x 25% / (1-25%)).