ONTARIO ENERGY BOARD

EB-2013-0321

IN THE MATTER OF the Ontario Energy Board Act, 1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application by Ontario Power Generation Inc. pursuant to section 78.1 of the Ontario Energy Board Act, 1998 for an order or orders determining payment amounts for the output of certain of its generating facilities.

ENVIRONMENTAL DEFENCE'S CROSS-EXAMINATION DOCUMENT BOOK - PANEL 7

June 26, 2014

KLIPPENSTEINS
Barristers & Solicitors
160 John Street, Suite 300
Toronto, Ontario M5V 2E5

Murray Klippenstein
Kent Elson
Tel: (416) 598-0288
Fax: (416) 598-9520

Lawyers for Environmental Defence

Index

Contents | **Pages**

Note: The above documents are excerpts.

More than energy

ONTARIO HYDRO FINAL ANNUAL REPORT
JANUARY 1998 – MARCH 1999

Ontario Hydro

• A charge of $238 million to cover the costs associated with a targeted reduction of 850 staff, including those expected to become surplus to Corporate needs before the end of 1998, and costs associated with the large-scale staff relocations required under the NAOP.
• A write-off of $170 million in capital project expenditures associated with the three units of Bruce Nuclear Generating Station A that were laid-up in 1998. Management's assessment was that the related capital projects would have no future benefit due to the lengthy duration of the lay-up.
• A write-off of $82 million associated with certain buildings and equipment identified as surplus due to Hydro's transition towards a more competitive environment and to reflect the wind-up of several small ancillary business ventures.

The following table shows the extent to which the provision for future costs was used in 1998 and the three months ended March 31, 1999.

(millions of dollars)	THREE MONTHS ENDED MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Opening balance	**4,904**	6,390
Charges		
Operation, maintenance and administration	**144**	589
Fuel used for electric generation	**167**	690
Power purchased	**27**	78
Depreciation and amortization	**16**	83
Financing charges	**25**	46
	379	1,486
CLOSING BALANCE	**4,525**	4,904

8. FIXED ASSETS

(millions of dollars)	AS AT MARCH 31 1999		AS AT DECEMBER 31 1998		1997	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Generating stations						
Hydroelectric	**2,755**	**901**	2,755	881	2,723	898
Fossil	**5,462**	**2,896**	5,457	2,854	5,377	2,658
Nuclear	**24,868**	**6,984**	24,850	6,792	24,591	6,082
Heavy water	**3,946**	**986**	3,946	961	3,946	863
Transmission and distribution facilities	**11,493**	**3,674**	11,525	3,615	11,252	3,094
Administration and service facilities	**1,917**	**1,032**	1,914	1,055	1,789	1,339
FIXED ASSETS IN SERVICE	**50,441**	**16,473**	50,447	16,158	49,678	14,934

Nuclear steam generator rehabilitation costs

Ontario Hydro has undertaken a major program to rehabilitate steam generators at the Pickering A and B Nuclear Generating Stations. The costs of the program, which will continue until 2001, are being deferred and amortized over the remaining service lives of the individual generators commencing as each generator is returned to service.

2002 ANNUAL REPORT

ONTARIO POWER GENERATION

4. FIXED ASSETS

Depreciation and amortization expense consists of the following:

(millions of dollars)	**2002**	2001
Depreciation and amortization	**585**	578
Revalorization	**184**	198
Nuclear waste management costs	**(17)**	34
	752	810

Fixed assets consist of the following:

(millions of dollars)	**2002**	2001
Property, plant and equipment		
Nuclear generating stations	**3,447**	3,313
Fossil generating stations	**1,791**	1,671
Hydroelectric generating stations	**7,601**	7,754
Other fixed assets	**925**	770
Construction in progress	**1,250**	952
	15,014	14,460
Less: accumulated depreciation		
Generating stations	**1,726**	1,227
Other fixed assets	**342**	252
	2,068	1,479
	12,946	12,981

Interest capitalized at 6 per cent (2001 – 6 per cent) during the year ended December 31, 2002 was $44 million (2001 - $29 million).

5. SHORT-TERM CREDIT FACILITIES

OPG maintains a $1,000 million revolving short-term committed credit facility with certain financial institutions ("Bank Credit Agreement") that makes funds available to OPG for working capital requirements, for general corporate purposes and as a back-stop facility for OPG's Commercial Paper ("CP") program. The facility may be drawn upon in either Canadian or U.S. dollars in various forms including Prime loans, LIBOR loans, Banker's Acceptances and Letters of Credit and has a term of 364 days which may be extended for an additional two year term. This facility is subject to renewal in March 2003. OPG's CP program is supported by the Bank Credit Agreement. Under the CP program, OPG has authority to issue short-term promissory notes up to a maximum outstanding principal amount of $1,000 million in Canadian currency or the equivalent thereof in U.S. currency. At December 31, 2002, OPG has $182 million outstanding under the CP program compared to nil outstanding as at December 31, 2001.

ONTARIO POWER GENERATION INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

OPG's Reporting Structure

Effective January 1, 2014, OPG revised the composition of its reporting segments to reflect changes in its generation portfolio and to its internal reporting. These changes primarily reflect 48 of OPG's currently unregulated hydroelectric facilities being prescribed for rate regulation, effective July 1, 2014, and ceasing operation of the remaining coal-fired units at the Nanticoke and Lambton generating stations. For further details, refer to Note 16.

Recent Accounting Pronouncements

Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board issued an update to Accounting Standards Codification (ASC) Topic 220 which adds new disclosure requirements for items reclassified out of AOCI. The updates required OPG to present information about significant items reclassified out of AOCI by component in the consolidated financial statements. OPG has provided the required information in Note 10 of these consolidated financial statements and has applied the amendments for reporting periods beginning January 1, 2013.

Investment Companies

For reporting periods beginning January 1, 2014, OPG will adopt the updates to ASC Topic 946, *Investment Companies*. Based on the amended scope of the standard, OPG concluded that OPG Ventures Inc., the Decommissioning Fund, the Used Fuel Fund and the Ontario NFWA Trust should be treated as investment entities for accounting purposes. As the investments of these entities are already recorded at fair value, there were no measurement differences upon adoption of this update. However, additional disclosures are required in OPG's consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the years ended December 31 consist of the following:

(millions of dollars)	**2013**	**2012**
Depreciation	**513**	480
Amortization of intangible assets	**14**	15
Amortization of regulatory assets and liabilities *(Note 5)*	**436**	169
	963	664

Property, plant and equipment as at December 31 consist of the following:

(millions of dollars)	**2013**	**2012**
Nuclear generating stations	**9,116**	8,809
Regulated hydroelectric generating stations	**6,033**	4,548
Unregulated hydroelectric generating stations	**4,210**	4,140
Thermal generating stations	**1,552**	1,541
Other property, plant and equipment	**390**	383
Construction in progress	**3,140**	3,502
	24,441	22,923
Less: accumulated depreciation		
Generating stations	**7,483**	6,856
Other property, plant and equipment	**220**	207
	7,703	7,063
	16,738	15,860

Construction in progress as at December 31 consists of the following:

(millions of dollars)	2013	2012
Niagara Tunnel	**-**	1,353
Lower Mattagami	**1,982**	1,353
Darlington Refurbishment	**685**	354
Atikokan Biomass Conversion	**144**	59
Other	**329**	383
	3,140	3,502

Intangible assets as at December 31 consist of the following:

(millions of dollars)	2013	2012
Nuclear generating stations	**114**	112
Regulated hydroelectric generating stations	**2**	-
Unregulated hydroelectric generating stations	**7**	7
Thermal generating stations	**1**	2
Other intangible assets	**256**	249
Development in progress	**22**	10
	402	380
Less: accumulated amortization		
Generating stations	**103**	95
Other intangible assets	**240**	233
	343	328
	59	52

The estimated aggregate amortization expense for intangible assets currently recognized for each of the five succeeding years is as follows:

(millions of dollars)	2014	2015	2016	2017	2018
Amortization expense	12	10	7	3	1

Interest capitalized to construction and development in progress at an average rate of five percent during 2013 (2012 – five percent) was $127 million (2012 – $126 million).

5. REGULATORY ASSETS AND LIABILITIES

In March 2013, the OEB approved the settlement agreement between OPG and intervenors on all aspects of OPG's September 2012 application requesting approval to recover balances in the authorized variance and deferral accounts as at December 31, 2012 (the Settlement Agreement). This resulted in approval of $1,234 million recorded in the authorized variance and deferral accounts as at December 31, 2012, deferral for future review of $34 million recorded in certain accounts as at December 31, 2012, and a write-off of $7 million of interest recorded in certain accounts as at December 31, 2012. The interest write-off was recorded in net interest expense during the first quarter of 2013.

In approving the Settlement Agreement, the OEB decision authorized the disposition of approved balances over periods ranging from two to 12 years beginning on January 1, 2013. In April 2013, the OEB issued an order establishing new rate riders retroactively effective January 1, 2013 and authorizing OPG to collect $633 million over the period from March 1, 2013 to December 31, 2014. During the year ended December 2013, the Company amortized balances approved for disposition based on recovery periods authorized by the OEB.

Numbers may not add due to rounding.

Table 1

Prescribed Facility Rate Base - Previously Regulated Hydroelectric and Newly Regulated Hydroelectric ($M)

Line No.	Rate Base Item	2010 Actual	2011 Actual	2012 Actual	2013 Budget	2014 Plan	2015 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
	Previously Regulated Hydroelectric:						
1	**Gross Plant at Cost**	4,464.3	4,506.6	4,543.5	5,703.0	6,079.9	6,118.4
2	**Accumulated Depreciation and Amortization**	693.4	757.0	821.9	893.9	974.3	1,056.2
3	**Net Plant**	3,770.9	3,749.6	3,721.5	4,809.1	5,105.6	5,062.2
4	**Cash Working Capital**	26.4	21.5	21.7	21.7	21.7	21.7
5	**Materials & Supplies**	0.7	0.8	0.8	0.7	0.7	0.7
6	**Total Previously Regulated Hydroelectric**	3,798.0	3,771.8	3,744.0	4,831.5	5,128.0	5,084.6
	Newly Regulated Hydroelectric:						
7	**Gross Plant at Cost**					3,275.1	3,347.7
8	**Accumulated Depreciation and Amortization**					772.6	828.5
9	**Net Plant**					2,502.5	2,519.2
10	**Cash Working Capital**					8.3	8.3
11	**Materials & Supplies**					0.7	0.7
12	**Total Newly Regulated Hydroelectric**					2,511.5	2,528.2
13	**Total Regulated Hydroelectric Rate Base** (line 6 + line 12)					7,639.5	7,612.8

Ontario Energy Board

EB-2009-0084

Report of the Board

on the Cost of Capital for Ontario's Regulated Utilities

December 11, 2009

The FRS was further articulated by the National Energy Board in its RH-2-2004 Phase II Decision as:

> A fair or reasonable return on capital should:
>
> - be comparable to the return available from the application of invested capital to other enterprises of like risk (the comparable investment standard);
> - enable the financial integrity of the regulated enterprise to be maintained (the financial integrity standard); and
> - permit incremental capital to be attracted to the enterprise on reasonable terms and conditions (the capital attraction standard).[9]

In its letter of July 30, 2009, the Board noted that the National Energy Board's articulation of the FRS is consistent with the principled approach described on page 2 of the Compendium to the Board's March 1997 *Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities* (the "1997 Draft Guidelines") and the policies set out in the Board's December 20, 2006 Report.

The Board is of the view that the FRS frames the discretion of a regulator, by setting out three requirements that must be satisfied by the cost of capital determinations of the tribunal. Meeting the standard is not optional; it is a legal requirement. As set out by Enbridge in their final comments, the Supreme Court of Canada has "described this requirement that approved rates must produce a fair return as an 'absolute' obligation."[10] Notwithstanding this mandatory obligation, the Board notes that the FRS is sufficiently broad that the regulator that applies it must still use informed judgment and apply its discretion in the determination of a rate regulated entity's cost of capital.

Informed by the comments made by stakeholders in the context of this consultation and the relevant jurisprudence, the Board offers the following observations about the application of the FRS.

---

[9] National Energy Board. RH-2-2004, Phase II Reasons for Decision, TransCanada PipeLines Limited Cost of Capital. April 2005. p. 17

[10] *British Columbia Electric Railway Co. Ltd. v. Public Utilities Commission of British Columbia et al [1960] S.C.R. 837*, at p. 848.