

UNDERTAKING J12.3

Undertaking

To make best efforts to identify what percentage of the \$2.5 billion being added to the rate base for newly regulated hydro facilities is attributable to revaluation of costs of the transfer from Ontario Hydro to OPG, or to provide a proxy if the number cannot be provided.

Response

While OPG does not believe the requested information is relevant in the context of the current application, its high-level estimate is that approximately 50%-60% of the December 31, 2013 net book value of \$2,525M for the newly regulated hydroelectric property, plant and equipment (from Ex. A2-1-1, Att. 6, p. 1) is attributable to the difference between the cost of these assets to OPG and their net book value as reflected in the financial statements of Ontario Hydro for the final period of operations.

In calculating this estimate, OPG has applied a ratio equal to the net book value of all hydroelectric assets on Ontario Hydro's March 31, 1999 financial statements divided by the opening book value of these assets on OPG's financial statements (as of April 1, 1999) to a valuation of the newly regulated assets in 1999 for tax purposes. OPG has also assumed a proxy average remaining depreciation life of approximately 58 years for these assets at April 1, 1999, as calculated based on the ratio of their actual December 31, 2013 gross cost of \$3,266.0M (from Ex. L-1.0-1 Staff-002, Att. 1, Table 2, col. (e), line 9) and the associated 2013 actual depreciation and amortization expense of \$56.6M (from Ex. L-1.0-1 Staff-002, Att. 1, Table 3, col. (b), line 9). This assumed life for depreciation allowed OPG to estimate how much of the revaluation amount had been amortized away prior to December 31, 2013.

Ontario Power Generation was established through the purchase of a set of assets on April 1, 1999. This set of assets was financed by OPG through a combination of debt and equity. Canadian GAAP required the use of purchase accounting to assign values to specific assets at the inception of OPG. It is that cost, the cost reflected in OPG's audited financial statements, that is recoverable from generating revenues from those assets over time.