UNDERTAKING J9.4

Undertaking

To provide the reconciliation for 2008 and 2009 for the numbers that appear in line 1 in Exhibit F3, Tab 2, Schedule 1, Table 7.

Response

The amounts presented for regulatory earnings before tax ("EBT") for 2008 and 2009 in Ex. F3-T2-S1, Table 7 are annual amounts. The table below reconciles these amounts to revenues and costs as presented in Exhibit K1, Summary of Revenue Requirement, Revenues and Revenue Deficiency, and other relevant exhibits. EBT amounts for Q1 2008 and Q2-Q4 2008 are calculated separately to determine the test period amounts for 2008.

$M	Q1 2008	Reference	Q2-Q4 2008	Reference	Total 2008		Total 2009	Reference
Generation Revenue	796	Note 1	2,754	Ex. K1-T1-S1, Table 1, Line 22, Column (g)	3,550		3,682	Ex. K1-T1-S1, Table 2, Line 22, Column (c)
Less: Cost of Debt	(59)	Note 2	(136)	Sum of Ex. K1-T1-S1, Table 1, Lines 9 and 10, Column (g)	(195)		(185)	Sum of Ex. K1-T1-S1, Table 2, Lines 9 and 10, Column (g)
Less: Total Expenses (excluding cost of debt)	(729)	Sum of Ex. K1-T1-S1, Table 1, Line 17, Columns (b) and (e)	(2,409)	Ex. K1-T1-S1, Table 1, Line 17, Column (g)	(3,138)		(3,219)	Ex. K1-T1-S1, Table 2, Line 17, Column (c)
Add: Total Other Revenues Net of Costs (i)	50	Note 3	125	Ex. K1-T1-S1, Table 1, Line 20, Column (g)	175		167	Ex. K1-T1-S1, Table 2, Line 20, Column (c)
Add: Return on Equity Bruce Direct Cost (ii)	7	Note 3B	53	Note 5	60		66	Ex. G2-T2-S1, Table 3, Line 5, Column (e)
Add: Nuclear Liability Deferral	14	Note 4	-	Note 4	14		-	Note 4
Sub-Total	**79**		**387**		**466**		**511**	
Single Rate Adjustment	-		6	Note 6	6		(7)	Note 6
Regulatory Earnings Before Tax	**79**		**393**		**472**		**504**	

(i) Total Other Revenues (including Bruce Lease Revenues net of Direct Costs) reduce the revenue requirement; however, in calculating EBT for regulatory income tax purposes, they are added back in order to compute the associated income tax cost that OPG will incur while providing the ratepayers with the pre-tax benefit of these Other Revenues.

(ii) Total Other Revenues (including Bruce Lease Revenues net of Direct Costs) are net of the Return on Equity Bruce Direct Cost. Therefore, this cost is added back in calculating EBT for regulatory income tax purposes in order to account for the fact that return on equity is an after-tax cost to OPG related to the Bruce facilities.

Note 1: Revenue for Q1 2008 is calculated using interim payment amounts of $33.00/MWh for regulated hydroelectric and $49.50/MWh for nuclear applied to OPG's production forecast for Q1 2008 (4.5 TWh for regulated hydroelectric and 13.1 TWh for nuclear).

Note 2: Cost of debt for the prescribed facilities for Q1 2008 is calculated using the interim period capital structure of 55% debt / 45% equity, the debt cost rate of 5.76% as per Ex. C1-T2-S1, Table 3, Line 4, Column (c), and the rate base amount. This amount is multiplied by ¼ to determine the cost of debt for Q1 2008.

Note 3: The amount of Total Other Revenues (including Bruce Lease Revenues net of Direct Costs) for Q1 2008 is calculated as follows:

	$M	Reference
Q1 2008 Total Other Revenues Net of Costs Adjustment as per Exhibit K1	42	Sum of Ex. K1-T1-S1, Table 1, Line 20, Columns (b) and (e)
Add: Q1 2008 Interest Bruce Direct Cost Calculated Using Test Period Capital Structure	7	Ex. G2-T2-S1, Table 3, Line 4, Column (d) x 1/4
Less: Q1 2008 Interest Bruce Direct Cost Calculated Using Interim Period Capital Structure	(9)	Note 3A
Add: Q1 2008 Return on Equity Bruce Direct Cost Calculated Using Test Period Capital Structure	17	Ex. G2-T2-S1, Table 3, Line 5, Column (d) x 1/4
Less: Q1 2008 Return on Equity Bruce Direct Cost Calculated Using Interim Period Capital Structure	(7)	Note 3B
Q1 2008 Total Other Revenues Net of Costs	**50**	

Note 3A: Cost of Debt for the Bruce facilities for Q1 2008 is calculated using the interim period capital structure of 55% debt / 45% equity, the debt cost rate of 5.76% as per Ex. G2-T2-S1, Table 5, Line 4, Column (d), and the average fixed asset amount for Bruce facilities. This amount is multiplied by ¼ to determine the Cost of Debt for the Bruce facilities for Q1 2008.

Note 3B: Return on Equity Cost for the Bruce facilities for Q1 2008 is calculated using the interim period capital structure of 55% debt / 45% equity, the rate of return rate of 5.00% and the average fixed asset amount for Bruce facilities. This amount is multiplied by ¼ to determine the Return on Equity Cost for the Bruce facilities for Q1 2008.

Note 4: The Nuclear Liability Deferral amount represents the depreciation cost included in the Q1 2008 budget that is expected to be recorded in the Nuclear Liability Deferral Account (discussed in Ex. J1-T1-S1). The deferral of these costs is not reflected in the line item “Total Expenses” (for Pickering and Darlington) or the line item “Total Other Revenues Net of Costs” (for Bruce); therefore, this adjustment is necessary to reflect the appropriate planned level of depreciation expense for Q1 2008. The amount of deferred depreciation is calculated based on the 2007 year-end undepreciated value of the original increase of $1,386M in asset retirement costs that occurred on December 31, 2006 and the remaining useful lives of the associated nuclear stations. This amount is multiplied by ¼ to determine the deferred depreciation cost for Q1 2008.

Note 5: Amount is calculated as 3/4 (corresponding to the three quarters of 2008 included in the test period) of the annual Return on Equity Bruce Direct Cost for 2008 of $70.1M as per Ex. G2-T2-S1, Table 3, Line 5, Column (d).

Note 6: The adjustment represents an offsetting inter-period difference between Q2-Q4 2008 and 2009 due to the fact that a single set of payment amounts is applied across the 21-month test period. The adjustment also includes rounding.