UNDERTAKING J15.1

Undertaking

To provide an answer whether the difference between the totals in H1-T1-S3 of $2,325M and $2,178M for 2008 (9 months) and 2009, respectively, and the K7.1 totals of $1,231M and $878M for 2008 (9 months) and 2009, respectively, is funded liability; or to otherwise explain the difference between those numbers.

Response

As indicated in Exhibit K7.1 the average unfunded nuclear liability (i.e. ARO less the existing level of Nuclear Funds) is $1,231M for Q2-Q4 of 2008 and $878M in 2009.

It is OPG's view that it is not meaningful to consider whether the Asset Retirement Cost (ARC) is fully funded at a point in time. Rather it is only appropriate consider whether the full liability, the Asset Retirement Obligation (ARO) is fully funded at a point in time.

To understand this comment it is important to understand what the ARC and ARO represent. First, the ARC that was initially capitalized as part of nuclear fixed asset costs represents the present value of the unfunded nuclear liability at that point in time. That cost was then subsequently depreciated, which reduces its value. That value can also be added to or subtracted from, as a result of revisions to the nuclear liability such as occurred in December 2006. These increments or decrements to the ARC represent the present value of the change in liability at the point in time that the revision is made. In summary, at a point in time the ARC represents the undepreciated balance of the nuclear liability amounts that have previously been included in fixed assets. Absent changes in the nuclear liability estimate, ARC will decline with time due to the effect of depreciation.

The ARO, on the other hand, is the present value of the total asset retirement obligation. Initially the ARO and ARC are equal but whereas the ARC reduces due to depreciation, the ARO increases over the test period as a result of the net effect of accretion, reflecting its present value nature, increases in the liability due to incremental volumes of used fuel and low and intermediate waste, less expenditures by OPG that satisfy part of the liability.

The funding of the asset retirement obligations is through the prescription in ONFA to establish and contribute to the Nuclear Funds together with internal cash flows used to pay for used fuel and waste storage costs prior to station shutdown. This funding is to satisfy the total liability i.e., ARO. It is, therefore, only appropriate to compare the level of funding to the ARO in understanding whether the liability is fully funded or not. Comparing ARC at any point in time to the level of the funds is simply not meaningful.