Board Staff Interrogatory #318

Interrogatory

Reference:
Exhibit G2 / Tab 2 / Schedule 1 / pp. 1, 3

Preamble:

OPG stated that Bruce Power has options to renew the lease to December 31, 2064. OPG's Custom IR term forecasts assume that Bruce Power will exercise its options to renew the lease.

Question(s):

a) Please advise when the Bruce Lease is set to expire.

b) Please advise whether there are any expected changes to the Bruce Lease at the time of the renewal that may impact the Bruce Lease net revenues incorporated as part of OPG's proposed 2022-2026 revenue requirements.

c) Please further explain why the full amount of base rent is considered an executory cost (effective 2019).

d) Please provide the calculation supporting the Bruce Lease base rent revenues for 2022-2026.

Response

a) As noted at Ex. G2-2-1, p. 1, Bruce Power has options to renew the Bruce lease to December 31, 2064. At this time, OPG has received notice from Bruce Power to extend the lease to December 31, 2023. There are 20 subsequent renewal periods available to Bruce Power under the agreement, all but the final one being for 2 years each and the final renewal period being for 3 years. OPG's IR term forecasts assume that Bruce Power will continue to exercise its options to renew the lease.

b) OPG does not expect any changes to the Bruce lease agreement at renewal during the 2022-2026 period that may impact on the Bruce Lease net revenues incorporated into the proposed 2022-2026 revenue requirements.

c) As part of the process to amend the Bruce lease agreement effective in 2015, Bruce Power and OPG explicitly acknowledged that the base rent payments are intended

to cover OPG's executory costs such as property tax for the Bruce site.[1] The acknowledgement was made by the parties during the negotiation process but was not formally identified in the text of the amended lease agreement.[2] On this basis, the full amount of base rent payments starting in 2019 is considered to be an executory cost under US GAAP.

d) The requested calculation is shown below.

Chart 1

	Straight line amortization of base rent received from 2016 to 2018 ($M)[3]	**Straight line amortization of base rent received as at Dec 2015 ($M)[3]**	**Executory cost recovery ($M)**	**Total base rent revenue ($M)**
	[A]	*[B]*	*[C]*	*=[A]+[B]+[C]*
Deferred Revenue Balance at Dec 2015		*$222.1M[4]*		
2016-2018 Base Rent Excl. Executory Costs	*$223.9M[5]*			
2022	**4.6**	**4.5**	**17.0**	**26.1**
2023	**4.6**	**4.5**	**17.3**	**26.4**
2024	**4.6**	**4.5**	**17.7**	**26.8**
2025	**4.6**	**4.5**	**18.0**	**27.1**
2026	**4.6**	**4.5**	**18.4**	**27.5**

[1] See also EB-2016-0152, Ex. G2-2-1, p. 4, lines 11-22 and p. 7, lines 19-24.
[2] See also EB-2016-0152, Ex. L-7.2-1 Staff-216.
[3] Deferred revenue balances shown are amortized on a straight-line basis over remaining expected lease term for accounting purposes to end of 2064.
[4] As shown at EB-2013-0321 Ex. L-1.3-17 SEC-019, Att. 2, last column.
[5] As also noted in EB-2016-0152, Ex. G2-2-1, Table 2, Note 3, calculated as *[D]* - *[E]*, where:
[D] = sum of 2016-2018 base rent payments of $270.0M (i.e. $88.0M + $90.0M + $92.0M)
[E] = sum of executory costs within 2016-2018 base rent payments of $46.2M (i.e. $15.1M + $15.4M + $15.7M), where the annual amounts were determined by de-escalating, at an assumed CPI rate of 2.0%, the 2019 base rent payment.