OAPPA Interrogatory #9

Interrogatory

Reference:
Exhibit G2-2-1, Table 1 provides that net revenues from the Bruce Power Lease are forecast to be negative for the duration of the IR (2022-2026), for a total gross loss of $217 million which is expected to be reclaimed from Ontario's ratepayers. OAPPA understood from EB-2016-0152 that the principal reason for this loss was precipitated by the extension of the December 2015 amendment to the Bruce Power Lease Agreement, extending the term to 2061 and to consequently increasing the Accretion expense. It was also understood that the 2015 Amendment removed OPG's material obligations specific to OPG payment obligations specific to HOEP settlements.

a) Please provide an annual estimate of the avoided HOEP to contract rate settlement payments that would have occurred during the IR had the pre-2015 obligation persisted.
b) Please provide a detailed explanation as to how the annual Accretion expenses are determined during the IR period.

Response

a) Prior to the amendment effective December 4, 2015, the Bruce Lease Agreement contained a requirement for OPG to provide Bruce Power with a partial supplemental rent rebate for the Bruce units that were not subject to the Bruce Power Refurbishment Implementation Agreement, dependent on the Hourly Ontario Energy Price ("HOEP"). Specifically, the rebate was triggered in a calendar year where the annual arithmetic average of the HOEP ("Average HOEP") fell below $30/MWh and at the time applied to the Bruce B units. This provision was eliminated as part of the December 2015 amendment to the Bruce Lease Agreement.

   While OPG has not maintained updated calculations of the specific rebate amount had the Bruce Lease Agreement not been amended, based on information last developed in 2015 and the actual HOEP levels experienced since then, OPG is able to estimate that the rebate for the Bruce B units would have been triggered in each year after 2015, at an average value in the order of $90M per year.

b) As discussed in Ex. C2-1-1, p. 5, line 22 to p. 6, line 24, accretion expense represents the unwinding of the discounting of the nuclear liabilities (referred to as asset retirement obligation or "ARO"), which are determined in present value terms

in accordance with US GAAP. As discussed at that evidence, the initial value and each subsequent adjustment to the ARO is calculated using a discount rate determined at the time each such tranche is recorded. In accordance with US GAAP, the discount rate is determined using a credit-adjusted risk free rate (Ex. L-C2-01-Staff-075). The unwinding of the discounting through the accretion expense is calculated on the basis of the underlying discount rates and tranche balances. The ARO is not revalued for changes in the discount rate subsequent to the recording of each tranche.