UNDERTAKING J15.1 ADDENDUM #2

Undertaking

Respond to the following questions from Mr. Thompson's July 11, 2008 letter to Ms. Walli:

a) Provide a continuity schedule for Asset Retirement Costs ("ARC") in a format similar to that which was provided in J1.5 for Asset Retirement Obligations ("ARO"); including opening and closing balances for ARC for the period January 1, 2005 to December 31, 2009, segregated between Bruce and Pickering and Darlington.

b) Provide the unfunded portion of the $24B undiscounted ARO reflected in the December 31, 2006 Reference Plan, separated for each of the plants listed in response to Undertaking J15.1 Addendum; namely, Bruce A, Bruce B, Darlington, Pickering A and Pickering B.

Response

a) The table below provides the requested continuity schedule. It shows the opening and ending balances of the ARC for each of the years 2005 to 2009, whereas Ex. H1-T1-S3 shows the average of the opening and ending balances for each period in order to compute the cost of capital component of the revenue requirement related to OPG's nuclear waste and decommissioning costs.

($ million)

	Pickering/ Darlington	Bruce	Total Nuclear
ARC, opening Jan. 1, 2005	1,114	466	1,580
Depreciation	(101)	(78)	(179)
ARC, ending Dec. 31, 2005	**1,013**	**388**	**1,401**
Depreciation	(86)	(78)	(164)
ARO adjustment (Note 1)	508	878	1,386
ARC, ending Dec. 31, 2006	**1,435**	**1,188**	**2,623**
Depreciation	(134)	(60)	(194)
ARC, ending Dec. 31, 2007	**1,301**	**1,128**	**2,429**
Forecast depreciation	(120)	(48)	(168)
Forecast ARC, ending Dec. 31, 2008	**1,181**	**1,080**	**2,261**
Forecast depreciation	(120)	(48)	(168)
Forecast ARC, ending Dec. 31, 2009	**1,061**	**1,032**	**2,093**

Note 1: The ARO Adjustment is the increase in the nuclear liability arising from the December 2006 update to the ONFA reference plan. The ARO Adjustment was recorded on December 31, 2006 but is excluded from the calculation of rate base/average fixed assets for 2006, since rate base/average fixed assets represents an average balance for the year. Therefore, the average balances of ARC shown in Ex. H1-T1-

S3 for 2006 and 2007 are computed as though the ARO Adjustment was recorded on January 1, 2007, rather than December 31, 2006. This is consistent with the presentation of the Nuclear Plant Rate Base Amounts shown in Ex. B3-T3-S1, Table 1 (footnote 1) and Ex. L-2-55, Attachment 1, and the Average Bruce Fixed Assets shown in Ex. G2-T2-S1, Table 2 (footnote 1).

b) The $24B in the question is the arithmetic sum of the stream of estimated costs of decommissioning and nuclear waste management using <u>current</u> prices for labour, materials, etc. but does not take into account the time value of money. It is a constant dollar estimate, i.e., unescalated and undiscounted, as per the most recent ONFA Reference Plan, using 2007 prices (as noted in Note 10 on pg. 28 of OPG's 2007 annual audited financial statements in Appendix A, Ex. A2-T1-S1; Ex. L-1-80, pg. 1, line 38; Ex L-1-84, pg. 1, line 36).

The value of the segregated funds cannot be expressed in constant dollars as funds are only expressed in dollars of the year. The concept of constant dollars does not apply to a fund which grows over time to discharge a future obligation.

Therefore, the comparison of the $24B constant dollar obligation to the value of the segregated fund is an "apples to oranges" comparison which is not meaningful. The only meaningful comparison for determination of the degree of funding of the obligation is a comparison of the value of the funds at a point in time to the present value of the future obligation at that point in time (which is equal to the ARO amount on the balance sheet). The ARO as at December 31, 2006 and % unfunded is provided in the table below.

Nuclear Station	**Total ARO**	**Unfunded ARO** *(Note 1)*	**% Unfunded**
Bruce A	2,866	1,385	48%
Bruce B	1,748	136	8%
Darlington	2,173	413	19%
Pickering A	1,778	100	6%
Pickering B	1,763	181	10%
Total	**10,328**	**2,215**	**21%**

Note 1: Effective January 1, 2007, OPG adopted the new GAAP standard for recognizing and measuring financial instruments, which required OPG to reflect the nuclear segregated funds on a fair value basis on its Balance Sheet starting on that date. Therefore, OPG has calculated the unfunded ARO above using the fair value basis of the funds on January 1, 2007 rather than the amortized cost basis used for financial reporting prior to that date (and appearing on OPG's Balance Sheet as at December 31, 2006). OPG has used this approach because it is consistent with the approach going forward and specifically, that for the test period. The fair value basis of the funds on January 1, 2007 and the change in the GAAP requirements are disclosed in Note 3 to OPG's 2006 audited financial statements (pg. 84-85 of OPG's 2006 Annual Report in Ex. A2-T1-S1, Appendix A) as well as Note 3 to OPG's 2007 audited financial statements (pg. 17 of the 2007 financial statements in Ex. A2-T1-S1, Appendix A).