UNDERTAKING J3.2

Undertaking

TO PROVIDE THE CALCULATION OF THE D2O PROJECT IMPACT ON REVENUE REQUIREMENTS FOR 2022 TO 2026 AS PROPOSED IN THE APPLICATION, INCLUDING WITH 50 PERCENT OVERRUN

Response

2022-2026 Revenue Requirement Impact Requested in this Proceeding

The impact of the D2O Storage Project on the 2022-2026 nuclear revenue requirements as proposed totals $197.3M, as follows: 2022 – $41.2M, 2023 – $40.0M, 2024 – $39.5M, 2025 – $38.7M, 2026 – $37.9M, and is shown in attached Table 1. The impact is calculated on the total project in-service additions of $509.3M, including the $14.6M addition that was previously approved for inclusion in the rate base.[1]

The cost of capital component of the above impacts (Table 1, line 3) reflects the capital structure per the OEB-approved settlement proposal and is subject to the prevailing return on equity rate specified by the OEB as of the effective date of the final payment amounts order in this proceeding.

The overall income tax component of the above impacts (Table 1, line 10) is nil due to the forecasted cumulative regulatory tax loss position over the period (Ex. O, Draft Payment Amounts Order, App. A, Tables 17-21, line 25 and Table 22). The regulatory taxable income associated with the project (Table 1, line 8) therefore forms part of the tax loss carry forward amount for future rate terms (Ex. O, Draft Payment Amounts Order, App. A, Tables 17a-21a, Note 7). There is no capital cost allowance ("CCA") under the accelerated investment property program ("enhanced CCA") related to the project during the 2022-2026 period.

2022-2026 Revenue Requirement Impact Assuming a $200M Project Disallowance

OPG has undertaken the calculation of an illustrative $200M disallowance for the sole purpose of responding to the undertaking request, using the figure provided in the transcript (Tr. Vol. 3, p. 23, line 20). OPG does not agree that this figure is either representative of a "50 percent overrun" or an appropriate disallowance.

Assuming a $200M project disallowance that would reduce the in-service additions reflected in the nuclear revenue requirements to $309.3M, OPG calculates the 2022-

[1] Ex. D2-2-10, p. 1, Note 1.

2026 revenue requirement impact to be $118.1M, as follows: 2022 – $24.7M, 2023 – $24.0M, 2024 – $23.6M, 2025 – $23.2M, 2026 – $22.6M, and is shown in attached Table 2. This would represent a reduction of $79.2M to the requested amounts above, as follows: 2022 – $16.5M, 2023 – $16.0M, 2024 – $15.9M, 2025 – $15.5M, 2026 – $15.3M. These impacts are calculated by adjusting the most recent in-service additions by the assumed disallowance.

Due to the forecasted regulatory tax loss position, there would no impact on the income tax expense included in the 2022-2026 revenue requirements, with the regulatory tax losses carried forward at the end of the period increasing by $15.8M (Table 1, line 9, col. (f) less Table 2, line 9, col. (f)).

Revenue Requirement Impact Recorded in Capacity Refurbishment Variance Account and Impact Thereon of a $200M Project Disallowance

In EB-2016-0152, OPG removed forecasted in-service additions for the D2O Storage Project totaling $365.9M from the requested 2017-2021 nuclear revenue requirements, as explained in Ex. J3.03. However, as noted in Ex. D2-2-10, p. 13, note 10, the income tax impacts of the CCA deductions associated with the forecasted project expenditures over the 2017-2021 period were not removed from the EB-2016-0152 application. These expenditures continued to form part of the overall forecasted Darlington Refurbishment Project ("DRP") amounts, for which CCA deductions are claimed under the "long-term project" and "rolling start" rules that result in deductions being realized beginning prior to the amounts being declared in service.[2]

The revenue requirement impact of the D2O Storage Project in-service additions totaling $494.7M (i.e., the difference between the total in-service additions of $509.3M and the previously approved $14.6M) is being recorded in the Capacity Refurbishment Variance Account ("CRVA"), as of the dates various portions of the project were placed into service. As OPG did not remove a forecast of the CCA impacts associated with the project from the EB-2016-0152 revenue requirements, the CRVA also captures the variance in the project CCA from those forecasts.

In this application, OPG has sought to clear the year-end 2019 CRVA balance related to the D2O Storage Project ("D2O balance") of $58.1M debit (Ex. H1-1-1, Table 1b, line 24, col. (f)), with the underpinning account entries for each of the years 2016-2019 set out in Ex. H1-1-1, Table 16. As noted at Ex. H1-1-1, Table 16, Note 3, these amounts exclude any CCA variance for the project, which is instead included with all other DRP CCA variances as part of the CRVA. The enhanced CCA portion of the variance is captured with all other DRP enhanced CCA amounts at Ex. H1-1-1, Table 1b, line 23,[3] which are being cleared in this proceeding. The non-enhanced CCA

[2] Ex. F4-2-1, p. 4, lines 25-30.
[3] As further detailed at Ex. L-H1-01-Staff-330.

portion of the variance is included with all other DRP amounts ("DRP excluding D2O balance") at Ex. H1-1-1, Table 1b, line 21, which are not being cleared in this application.

A disallowance of $200M as assumed above would reduce the year-end 2019 CRVA D2O balance recoverable in this application by $2.8M to $55.3M, including associated interest on the account. The revised recoverable account additions are calculated in attached Table 3, in the format of Ex. H1-1-1, Table 16. The disallowance would also reduce the year-end 2019 CRVA DRP enhanced CCA balance refundable in this application by $1.0M to $18.2M, including associated interest on the account.[4]

[4] The ultimate impact of the disallowance on non-enhanced CCA for the 2017-2021 period would be captured as an adjustment to the CRVA DRP excluding D2O balance, to be cleared in a subsequent proceeding.