

Appendix F: Variance and Deferral Accounts

CLEARANCE OF EXISTING VARIANCE AND DEFERRAL ACCOUNTS

The Board approves the recovery of balances in the following variance accounts established under O. Reg. 53/05 for the period April 1, 2005 to March 31, 2008:

- Hydroelectric Water Conditions Variance Account
- Ancillary Services Net Revenue Variance Account (with sub-accounts for nuclear and hydroelectric)
- Transmission Outages and Restrictions Variance Account

With respect to the December 31, 2007 balances in these accounts, the Board approves the balances, recovery period and method of recovery as provided in the following table:

Account	Approved Balance	Recovery Period Ending	Method of Recovery
Hydroelectric Water Conditions	\$6.7M	Dec 31, 2009	Hydroelectric Payment Amount
Ancillary Services Net Revenue, Hydroelectric sub-account	\$6.7M	Dec 31, 2009	Hydroelectric Payment Amount
Ancillary Services Net Revenue, Nuclear sub-account	\$1.6M	Dec 31, 2010	Nuclear Payment Rider
Transmission Outages and Restrictions	\$(1.7)M	Dec 31, 2010	Nuclear Payment Rider

The Board approves the recovery of balances in the following deferral accounts established pursuant to O. Reg. 53/05 for the period April 1, 2005 to March 31, 2008:

- Pickering A Return to Service Deferral Account
- Nuclear Liability Deferral Account, Transition
- Nuclear Development Deferral Account, Transition

The Board approves the recovery of the December 31, 2007 balances in these accounts, the test period recovery amount and the recovery period as provided in the following table:

Account	Approved Balance	Recovery Period Ending	Test Period Recovery Amount
Pickering A Return to Service Deferral Account	\$183.8M	Dec 31, 2011	\$ 86.1M
Nuclear Liability Deferral Account	\$130.5M	Dec 31, 2010	\$ 83.0M
Nuclear Development Deferral Account, Transition	\$ 11.7M	Dec 31, 2010	\$ 7.4M
Total	\$325.9M	Not applicable	\$176.5M

The Board approves OPG's recovery of the test period recovery amount for the nuclear deferral accounts using a payment rider. A payment rider of \$2.00/MWh (Nuclear Payment Rider A) determined in Appendix D, Table 1, effective April 1, 2008 shall apply to OPG's nuclear production for the period December 1, 2008 to December 31, 2009. Effective December 1, 2008, a second payment rider of \$1.23/MWh (Nuclear Payment Rider C) determined in Appendix D, Table 1, shall apply to OPG's nuclear production for the period December 1, 2008 to December 31, 2009. Nuclear Payment Rider C shall enable OPG to recover amounts for Nuclear Payment Rider A for the period April 1, 2008 to November 30, 2008.

As the payment rider is based upon forecast production, any differences between forecast and actual production during the test period will cause a variance. This variance shall be carried forward to OPG's next payment application.

Existing Deferral and Variance Accounts

January 1, 2008 to March 31, 2008 Period

OPG shall continue to record differences between amounts reflected in its interim payment amounts authorized under O. Reg. 53/05 and OPG's actual costs/revenues incurred from December 31, 2007 to March 31, 2008 related to the following deferral and variance accounts:

- Hydroelectric Water Conditions Variance Account

- Ancillary Services Net Revenue Variance Account (with sub-accounts for nuclear and hydroelectric)
- Transmission Outages and Restrictions Variance Account
- Pickering A Return to Service Deferral Account
- Nuclear Liability Deferral Account, Transition
- Nuclear Development Deferral Account, Transition

OPG shall submit information to support amounts recorded post-December 31, 2007 in these accounts for disposition in OPG's next payment amounts application.

OPG shall record interest on the balances in accordance the interest rates established in O. Reg 53/05 until March 31, 2008. Effective April 1, 2008, OPG shall record interest on the balances in these accounts using the interest rates set by the Board from time to time pursuant to the Board's interest rate policy. OPG shall continue to apply interest to the opening monthly balance of these accounts until the balances are fully recovered.

CONTINUING VARIANCE AND DEFERRAL ACCOUNTS

OPG shall establish or continue, as applicable, the variance and deferral accounts listed below effective April 1, 2008.

OPG shall record interest on the balances in these accounts using the interest rates set by the Board from time to time pursuant to the Board's interest rate policy. OPG shall apply interest to the opening monthly balance of these accounts until the balances are fully recovered.

Hydroelectric Water Conditions Variance Account

The Hydroelectric Water Conditions Variance Account shall record the financial consequences of differences between forecast and actual water conditions as proposed in OPG's application. OPG shall determine the production impact of changes in water conditions by entering the actual flow values into the same production forecast model used to provide the Board approved production forecast, holding all other variables the same. OPG shall determine the deviations from forecast as the difference between the resulting

production from the production forecast model based on actual flows and the energy production forecast approved by the Board for the test period. The monthly regulated hydroelectric production forecast approved by the Board is provided in Draft Rate Order Appendix E, Table 2. OPG shall determine the revenue impact by multiplying the deviation from forecast, as described above, by the hydroelectric payment amount of \$36.66/MWh as calculated in Appendix B, Table 1. The resulting amount shall be recorded in the Hydroelectric Water Conditions Variance Account.

OPG shall also record in this account changes in the gross revenue charge payments as a result of differences in energy production (as provided above). OPG shall determine amounts to be recorded in this account by multiplying the deviation from production forecast as described above by the applicable gross revenue charge rate.

OPG shall also record in this account any variations from the payments included in OPG's application for the St. Lawrence Seaway Management Corporation for the conveyance of water in the Welland Ship Canal.

Ancillary Service Net Revenue Variance Account - Hydroelectric

OPG shall compare actual hydroelectric ancillary service net revenue to the forecast amount of \$57.4M as reflected in the revenue requirement approved by the Board. Each month the difference shall be recorded in this variance account. The specific ancillary services for regulated hydroelectric operations are: black start capability, operating reserve, automatic generation control, and reactive support/voltage control service.

Ancillary Service Net Revenue Variance Account - Nuclear

OPG shall compare actual nuclear ancillary service net revenue to the forecast amounts of \$5.4M as reflected in the revenue requirement approved by the Board. Each month the difference shall be recorded in this variance account. The specific ancillary services for nuclear operations included in the test period forecast are operating reserve and reactive support/voltage control service.

Pickering A Return to Service Deferral Account

OPG shall continue to record amounts in the Pickering A Return to Service Deferral Account established effective January 1, 2005 under to O. Reg. 53/05.

Nuclear Liability Deferral Account

OPG shall establish a Nuclear Liability Deferral Account effective April 1, 2008 under O. Reg. 53/05. The account shall record the revenue requirement impact of any change in its nuclear decommissioning liability arising from an approved reference plan. OPG shall not record the revenue requirement impact of a change in its nuclear decommissioning liability associated with its nuclear obligations related to the Bruce facilities. OPG shall record the return on rate base using the average accretion rate on OPG's nuclear liabilities of 5.6% for the test period.

The "nuclear decommissioning liability" shall be defined as "the liability of Ontario Power Generation Inc. for decommissioning its nuclear generating facilities and the management of its nuclear waste and nuclear fuel." An "approved reference plan" shall be defined as "a reference plan, as defined in the Ontario Nuclear Funds Agreement, which has been approved by Her Majesty the Queen in the right of Ontario in accordance with that agreement."

OPG shall transfer the balance in the Nuclear Liability Deferral Account, Transition to this account effective April 1, 2008.

Nuclear Development Variance Account

OPG shall establish a Nuclear Development Variance Account effective April 1, 2008 pursuant to O. Reg. 53/05. The account shall record variances between the actual costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities during the test period and those approved by the Board.

OPG shall transfer the balance in the Nuclear Development Deferral Account, Transition to this account effective April 1, 2008.

NEW VARIANCE AND DEFERRAL ACCOUNTS

OPG shall record interest on the balances in these accounts using the interest rates set by the Board from time to time pursuant to the Board's interest rate policy. OPG shall apply interest to the opening monthly balance of these accounts until the balances are fully recovered.

OPG shall establish the following four new accounts effective April 1, 2008:

Capacity Refurbishment Variance Account

OPG shall establish a Capacity Refurbishment Variance Account pursuant to O. Reg. 53/05 section 6 (2) 4 to record variances between the actual capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in O. Reg. 53/05 section 2 during the test period and those forecast costs approved by the Board. This account shall include assessment costs and pre-engineering costs and commitments.

Nuclear Fuel Cost Variance Account

OPG shall establish a Nuclear Fuel Cost Variance Account as proposed in its application to record the difference between the forecast and the actual cost of nuclear fuel expensed in the test period. OPG shall determine the variance based on the variance in the total cost of the fuel bundles. OPG shall determine the difference between the nuclear fuel cost rate, expressed in \$/MWh using the nuclear fuel cost as reflected in the revenue requirement approved by the Board and the production forecast approved by the Board, and the actual cost of nuclear fuel on a \$/MWh basis. OPG shall apply this difference to its actual nuclear production during the test period. The resulting amount shall be recorded as the cost variance.

Income and Other Taxes Variance Account

OPG shall establish an Income and Other Taxes Variance Account as proposed in its application to record the financial impact on revenue requirement of:

- Any differences that result from a legislative or regulatory change to the tax rates or rules of the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the regulations under the *Electricity Act, 1998* to determine payments in lieu of corporate

income taxes and capital taxes and the regulations under the *Electricity Act, 1998* to determine payments in lieu of property tax to the Ontario Electricity Financial Corporation.

- Any differences in municipal property taxes that result from a legislative or regulatory change to the tax rates or rules for its regulated assets under the *Assessment Act, 1990*.
- Any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities, or court decisions on other taxpayers that OPG will incorporate in determining its actual payments in lieu of corporate income taxes and capital taxes.
- Any differences that result from tax assessments or re-assessments (including re-assessments associated with the application of these rates and rules to OPG's regulated operations or changes in assessing or administrative policy including court decisions on other taxpayers).

OPG shall calculate the income tax provision resulting from the revenue requirement approved by the Board and file it with the Board. That tax provision shall be used to calculate any variations in taxes recorded in the variance account.

Bruce Lease Net Revenues Variance Account

OPG shall establish a variance account to capture differences between (i) the forecast costs and revenues related to Bruce that are factored into the test period payment amounts for Pickering and Darlington, and (ii) OPG's actual revenues and costs in respect of Bruce. The revenues and costs factored into the test period payment amounts are detailed in Appendix A Table 7 of the Draft Rate Order. The cost impact of any changes in nuclear liabilities related to the Bruce stations shall also be recorded in this account.