

1           **UPDATE FOR AUDITED ACTUAL BALANCES FOR DEFERRAL**  
2                                   **AND VARIANCE ACCOUNTS**

3  
4   **1.0    PURPOSE**

5   The purpose of this exhibit is to provide the audited actual deferral and variance account  
6   balances at December 31, 2014 and to update OPG's calculation of payment riders  
7   proposed for the clearance of these account balances and resulting consumer impacts.

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9   **2.0    SUMMARY OF BALANCES, PAYMENT RIDERS AND CONSUMER IMPACT**

10   The tables accompanying this exhibit reproduce those originally filed in Ex. H1-1-1, Ex. H1-2-  
11   1 and Ex. I1-1-2. The tables have been updated to reflect audited actual balances and  
12   related information.

13  
14   Audited actual deferral and variance account balances at December 31, 2014 are presented  
15   in Ex. H1-1-2, Table 1, col. (d). Continuity schedules showing actual additions, amortization  
16   and interest for each account during 2014 are provided at Ex. H1-1-2, Table 1b for January  
17   to October 2014 and Table 1c for November and December 2014. Exhibit H1-1-2, Tables 2  
18   through 14 provide supporting calculations showing the derivation of additions into the  
19   accounts.

20  
21   Overall, the total audited actual December 31, 2014 balances for recovery are debit balances  
22   of \$190.6M for regulated hydroelectric and \$1,557.8M for nuclear, as shown in col. (c) of Ex.  
23   H1-1-2, Tables 15 and 16, respectively.<sup>1</sup> Compared to the projected balances originally filed,  
24   the total regulated hydroelectric debit balance for recovery has decreased by \$11.2M from  
25   the projection of \$201.8M. The total nuclear debit balance for recovery has increased by  
26   \$9.2M from the projection of \$1,548.5M.

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28   Actual account balances as at December 31, 2014 have been audited by OPG's auditor,  
29   Ernst & Young LLP. The unqualified auditors' report and the accompanying schedule of the

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<sup>1</sup> A debit entry or balance is an amount to be collected from ratepayers. A credit entry or balance is an amount to be returned to ratepayers.

1 audited balances are provided as Attachment 1 to this exhibit. In addition, an independent  
2 actuary's report from Aon Hewitt, in support of the January 2013 through October 2014  
3 pension and other post-employment benefits ("OPEB") amounts underpinning the actual  
4 additions recorded in the Pension and OPEB Cost Variance Account during this period, is  
5 included as Attachment 2 to this exhibit. The additions to the Pension and OPEB Cost  
6 Variance Account from January 2013 through October 2014 are unchanged from those  
7 presented in the original filing (see Ex. H1-1-1, section 5.8).

8  
9 Section 3 discusses the actual audited 2014 account balances and entries for the deferral  
10 and variance accounts with the largest differences in the December 31, 2014 balances from  
11 the projections originally filed on December 18, 2014.

12  
13 The lower December 31, 2014 total regulated hydroelectric debit balance for recovery is  
14 primarily driven by the change from a debit to a credit balance in the Hydroelectric Water  
15 Conditions Variance Account and a higher credit balance in the Ancillary Services Net  
16 Revenue Variance Account, partially offset by a higher debit balance in the Hydroelectric  
17 Surplus Baseload Generation Variance Account. The main driver of the increase in the  
18 December 31, 2014 total nuclear debit balance for recovery is the higher debit balance of the  
19 derivative sub-account of the Bruce Lease Net Revenues Variance Account, partially offset  
20 by the lower debit balance of the non-capital portion of the Capacity Refurbishment Variance  
21 Account and the higher credit balance in the Income and Other Taxes Variance Account.

22  
23 There are no changes to OPG's clearance proposal for any of the accounts, including  
24 amortization periods and methods for calculating the payment riders. The calculation of the  
25 payment riders, proposed to be effective July 1, 2015, is shown in Ex. H1-1-2 Table 15 for  
26 regulated hydroelectric and Table 16 for nuclear. The resulting riders are \$3.55/MWh for  
27 regulated hydroelectric and \$15.57/MWh for nuclear.

28  
29 The bill impact for a typical residential consumer of the above riders is estimated to be \$3.00  
30 per month on a typical monthly bill, as shown in Ex. H1-1-2 Table 17. This impact is slightly

1 lower than the increase of \$3.08 per month originally filed based on projected account  
2 balances.

### 3 4 **3.0 DISCUSSION OF VARIANCES FROM YEAR-END 2014 PROJECTED BALANCES**

5 This section discusses the actual audited 2014 account balances and entries for the deferral  
6 and variance accounts with the largest differences in the December 31, 2014 balances for  
7 recovery from the projections originally filed on December 18, 2014.

8 The main reasons for the differences from the December 18, 2014 projections of year-end  
9 2014 balances for these accounts are discussed below.

#### 10 11 3.1 Hydroelectric Water Conditions Variance Account

12 The 2014 year-end audited credit balance in the Hydroelectric Water Conditions Variance  
13 Account is \$8.5M, compared to the originally filed projected debit balance of \$12.7M, as  
14 shown in Ex. H1-1-2, Table 1, due to higher-than-forecast credit additions to the account  
15 during the November 1, 2014 to December 31, 2014 period. The higher credit additions, the  
16 calculation of which is shown in Ex. H1-1-2, Table 2, were due to actual water flows in 2014  
17 being higher than originally projected.

#### 18 19 3.2 Bruce Lease Net Revenues Variance Account – Derivative Sub-Account

20 The 2014 year-end audited debit balance in the Derivative Sub-Account of the Bruce Lease  
21 Net Revenues Variance Account is \$153.8M, compared to the projected balance of \$129.9M,  
22 The actual debit additions during November and December 2014 are as a result of an  
23 increase in the fair value of the derivative liability related to the Bruce lease agreement. The  
24 increase in the fair value is due to an increased expectation that the annual arithmetic  
25 average of the HOEP will fall below \$30/MWh in the future. The actual account additions,  
26 revenues earned by OPG under the Bruce lease and associated agreements in 2014 and the  
27 related costs incurred by OPG with respect to the Bruce Nuclear Generating Stations are  
28 presented in Ex. H1-1-2 Tables 13 and 13a.

29  
30 As noted in Ex. H1-1-1, section 5.13, pursuant the approved EB-2012-0002 Settlement  
31 Agreement, the 2013 and 2014 amortization of the Derivative Sub-Account is equal to the

1 amount of the supplemental rent rebate forecast to be payable to Bruce Power by OPG for  
2 each year and associated income tax impacts, adjusted by the difference between amounts  
3 previously recovered for the derivative, and the actual rent rebates paid by OPG to Bruce  
4 Power and associated income taxes. OPG has proposed to continue with this recovery  
5 methodology as discussed in Ex. H1-2-1. As such, the higher debit balance in the Derivative  
6 Sub-Account as at December 31, 2014 does not impact the proposed amortization amounts  
7 and payment riders.

### 8 9 3.3 Hydroelectric Surplus Baseload Generation Account

10 The 2014 year-end audited debit balance in the Hydroelectric Surplus Baseload Generation  
11 Account is \$67.1M, compared to the originally filed projection of \$52.0M. This is due to a  
12 higher than expected volume of foregone production at OPG's regulated hydroelectric  
13 facilities during November and December 2014 as a result of surplus baseload generation  
14 ("SBG") conditions. The higher SBG spill during November and December 2014 reflected  
15 weaker than expected electricity demand and higher than expected water flows. Ex. H1-1-2,  
16 Table 5 details the account additions.

### 17 18 3.4 Ancillary Services Net Revenue Variance Account – Hydroelectric

19 The 2014 year-end audited credit balance in the Ancillary Services Net Revenue Variance  
20 Account – Hydroelectric is \$16.5M, compared to the originally filed projected credit balance  
21 of \$10.6M. The higher actual credit balance reflects actual ancillary services revenues for  
22 operating reserve ("OR") and regulation service (formerly automatic generation control) being  
23 higher than forecasted for this period. The higher OR revenues were a result of higher than  
24 expected OR prices during the last two months of 2014, while the higher regulation service  
25 revenues reflected the newly negotiated contract between OPG and the IESO. Ex. H1-1-2,  
26 Table 3 details the account additions.

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1 3.5 Capacity Refurbishment Variance Account – Nuclear – Non-Capital Portion

2 The 2014 year-end audited debit balance of the nuclear non-capital portion of the Capacity  
3 Refurbishment Variance Account is \$1.3M, which is lower than the \$6.7M originally  
4 projected. This is primarily due to actual non-capital costs incurred for the Darlington  
5 Refurbishment project and Pickering Continued Operations in November and December  
6 2014 being lower than forecast.

7  
8 Actual non-capital Darlington Refurbishment project costs for November and December 2014  
9 were lower than expected primarily due to a reduction in removal costs charged to the  
10 project. Actual Pickering Continued Operations costs for November and December 2014  
11 were lower than projected primarily due to delays in execution of maintenance and repairs  
12 activities, partially offset by higher than planned expenditures related to project work. Ex.  
13 H1-1-2, Table 12 details the account additions.

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15 3.6 Income and Other Taxes Variance Account - Nuclear

16 The total 2014 year-end audited balance in the Income and Other Taxes – Nuclear Variance  
17 Account is a credit of \$13.2M, compared to the originally filed projected credit balance of  
18 \$8.5M. The higher credit balance reflects an additional 25 per cent of the benefit of the  
19 Scientific Research & Experimental Development investment tax credits for 2010 that were  
20 previously credited to ratepayers at 75 per cent. The additional credit is based on the  
21 completion of the audit of OPG's 2010 taxation year in late 2014. This credit addition, shown  
22 at Ex. H1-1-2 Table 6, is the same in nature and calculation as the equivalent additions for  
23 the 2008 and 2009 taxation years recorded in the variance account in 2013 and earlier in  
24 2014.

## LIST OF ATTACHMENTS

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- Attachment 1: Independent Auditors' Report on OPG's Deferral and Variance Account Balances as at December 31, 2014 and Accompanying Schedule of Regulatory Balances
- Attachment 2: Aon Hewitt's Report on the Accounting Cost for Post Employment Benefit Plans in Support of Pension and OPEB Cost Variance Calculations for Fiscal Year 2013 and the Period from January 1 to October 31, 2014