

1           **CLEARANCE OF DEFERRAL AND VARIANCE ACCOUNTS**

2  
3    **1.0    PURPOSE**

4    This evidence describes OPG's proposed approach for clearing the audited December 31,  
5    2014 balances.

6  
7    **2.0    SUMMARY**

8    OPG is requesting recovery of the audited December 31, 2014 balances in all deferral and  
9    variance accounts, except for the Pension and OPEB Cash Versus Accrual Differential  
10   Deferral Account and Pension and OPEB Cash Payment Variance Account, adjusted for  
11   amounts previously approved for recovery in 2015.

12  
13   OPG will bring forward the Pension and OPEB Cash Versus Accrual Differential Deferral  
14   Account and Pension and OPEB Cash Payment Variance Account in a future application.

15  
16   In EB-2013-0321 the OEB authorized the recovery of the approved audited December 31,  
17   2013 balances in the Hydroelectric Incentive Mechanism Variance Account, Hydroelectric  
18   Surplus Baseload Generation Variance Account, and the hydroelectric portion of the  
19   Capacity Refurbishment Variance Account through a hydroelectric payment rider applied to  
20   the output from the previously regulated hydroelectric facilities effective January 1, 2015.

21  
22   The OEB also authorized the recovery of the approved audited December 31, 2013 balances  
23   in the Nuclear Development Variance Account and the capital cost portion of the nuclear  
24   balance in the Capacity Refurbishment Variance Account through a nuclear payment rider  
25   applied to the output from the nuclear facilities effective January 1, 2015.

26  
27   For all other existing accounts, the December 31, 2012 balances were approved by the OEB  
28   in EB-2012-0002 as discussed in Ex. H1-1-1.

29  
30   Amortization amounts and payment riders described in this exhibit and accompanying tables  
31   are calculated based on a November 2014 projection of the December 31, 2014 balances,

1 adjusted for amortization already authorized for 2015 for the accounts listed above. Given  
2 that this projection was made late in the year, OPG expects it to be very close to the final  
3 figures that will appear in the audited December 31, 2014 balances that OPG expects to file,  
4 along with a calculation of the resulting payment riders in February 2015.

5  
6 The adjustment of balances for amortization already authorized for 2015 is shown at Ex. H1-  
7 2-1 Tables 1 and 2, columns (a) through (c).

8  
9 The methodology for the proposed recovery of the balances adjusted for previously  
10 authorized 2015 amortization is described in section 3.0. Proposals regarding effective dates,  
11 recovery periods and production forecast to be used to calculate the riders are presented in  
12 section 4.0. The calculation of the proposed riders based on projected December 31, 2014  
13 balances is discussed in section 5.0.

### 14 15 **3.0 METHODOLOGY**

16 OPG proposes to calculate separate riders for the output of all regulated hydroelectric  
17 facilities and the nuclear facilities, in the form of \$/MWh rates consistent with the OEB's  
18 decisions and Payment Amounts Orders in EB-2013-0321, EB-2012-0002 and EB-2010-  
19 0008.

20  
21 As before, riders are calculated using the following three steps.

22  
23 First, a recovery period is determined for each account (or sub-account) to be cleared.

24  
25 Second, based on each account's recovery period and the balance in the account, the  
26 amount to be amortized over the period is determined. As noted in section 2.0, above,  
27 balances to be cleared will be determined by adjusting the audited December 31, 2014  
28 balances for amortization already authorized for 2015 by the OEB in EB-2013-0321.

29  
30 The only exception to this second step is the Bruce Lease Net Revenues Variance Account –  
31 Derivative Sub-Account. OPG proposes to continue with the method of determining the

1 amortization amount for the Derivative Sub-Account as per the OEB-approved Settlement  
2 Agreement in EB-2012-0002. This method requires the amount cleared each year to be  
3 equal to the amount of the supplemental rent rebate forecast to be payable to Bruce Power  
4 for that year by OPG and associated income tax impacts, adjusted by the difference between  
5 amounts previously recovered in respect of the balance of the Sub-Account, and the actual  
6 rent rebates paid by OPG to Bruce Power and associated income taxes.

7  
8 As shown in Ex. H1-1-1 Table 13c, OPG forecasts supplemental rent rebates, net of  
9 associated income tax impacts, of \$62.1M in 2015 and \$64.0M in 2016. The EB-2012-0002  
10 payment riders reflected forecast supplemental rent rebates, net of associated income tax  
11 impacts, for 2013 and 2014. OPG made a supplement rent rebate payment for 2013, but  
12 does not expect to make such a payment for 2014. As such, as shown in Ex. H1-1-1 Table  
13 13c, the 2015 proposed amortization for the Derivative Sub-Account is reduced by the 2014  
14 amortization authorized in EB-2012-0002. The 2015 proposed amortization is also reduced  
15 for the difference of \$1.2M between the forecast and actual rebate made for 2013, net of  
16 associated income tax impacts. Finally, the 2015 proposed amortization has been reduced  
17 by \$8.9M (including interest at the OEB-prescribed rate) to correct an earlier error in the EB-  
18 2012-0002 calculation as explained in EB-2013-0321 Ex. H1-1-1, page 14, lines 16-20 and  
19 described in detail in OPG's letter to the OEB dated September 26, 2013. The resulting  
20 amortization shown in Ex. H1-2-1, Table 2, line 6 is a credit to customers of \$10.2M in 2015  
21 and an amount to be recovered of \$64.0M in 2016.

22  
23 The third step in the calculation of the payment rider is to divide the total amortization  
24 amounts for all accounts to be cleared during the period by the forecast energy production to  
25 determine the payment rider.

26  
27 OPG proposes a common rider for the previously and newly regulated hydroelectric facilities.  
28 This rider is calculated by dividing the combined amounts to be cleared for all regulated  
29 hydroelectric facilities by the combined production forecast for all of these facilities. OPG  
30 views the use of a common rider for regulated hydroelectric facilities as consistent with the

1 eventual consolidation of the previously and newly regulated hydroelectric assets when  
2 determining future payment amounts.

#### 3 4 **4.0 RECOVERY PROPOSALS**

##### 5 **4.1 Recovery Periods**

6 OPG proposes to calculate amortization based on a recovery period of 18 months  
7 commencing July 1, 2015 for all accounts with the exceptions described below.

8  
9 The Bruce Lease Net Revenues Variance Account – Derivative Sub-Account is proposed to  
10 be cleared as described in section 3.0, above.

11  
12 Amortization for the December 31, 2014 balance of the Pension and OPEB Cost Variance  
13 Account – Future Recovery component is proposed to be based on a period of 10 years,  
14 consistent with the remaining period of the 12-year amortization period agreed to in the OEB-  
15 approved EB-2012-0002 Settlement Agreement for this component.

16  
17 For the Pension and OPEB Cost Variance Account – Post 2012 Additions component, OPG  
18 proposes amortization over 24 months commencing July 1, 2015.

##### 19 20 **4.2 Production Forecast**

21 Consistent with the methodology approved by the OEB in EB-2012-0002, OPG proposes to  
22 calculate the payment amount riders using the production forecasts approved in the most  
23 recent rate proceeding, EB-2013-0321. Any differences between forecast and actual  
24 production will continue to be addressed by entries into the Hydroelectric Over/Under  
25 Recovery Variance Account and the Nuclear Over/Under Recovery Variance Account.

26  
27 In calculating the nuclear payment rider, OPG is using a production value of 71.7 TWh, which  
28 is 18/24 of the EB-2013-0321 approved two-year production forecast of 95.6TWh.

29  
30 In calculating the regulated hydroelectric rider, OPG is using a production value of 48.8TWh,  
31 which is the sum of 18/24 of the two-year production forecast of 41.1TWh for the previously

1 regulated hydroelectric facilities and the July 1, 2014 to December 31, 2015 18-month  
2 production forecast of 17.9TWh for the newly regulated hydroelectric facilities approved in  
3 EB-2013-0321.

## 4 5 **5.0 CALCULATION OF RIDERS**

### 6 **5.1 Regulated Hydroelectric**

7 The method of calculating the regulated hydroelectric payment rider is as shown in Ex. H1-2-  
8 1, Table 1 using projected December 31, 2014 account balances, adjusted for the 2015  
9 amortization already approved in EB-2013-0321. The resulting balances to be recovered in  
10 2015 and 2016 are \$184.5M. The rider would be \$3.78/MWh. The actual rider will be set  
11 using audited December 31, 2014 balances.

### 12 13 **5.2 Nuclear**

14 The method for calculating the nuclear payment rider is as shown in Ex. H1-2-1, Table 2  
15 using projected December 31, 2014 account balances, adjusted for the 2015 amortization  
16 already approved in EB-2013-0321. The resulting balances to be recovered in 2015 and  
17 2016 are \$1,131.1M. The rider would be \$15.78/MWh. The actual rider will be set using  
18 audited December 31, 2014 balances. As noted in section 2.0 above, given that the  
19 projection of both the nuclear and regulatory hydroelectric balances was made late in the  
20 year, OPG expects it to be very close to the final figures.