

CLEARANCE OF DEFERRAL AND VARIANCE ACCOUNTS

1.0 PURPOSE

This evidence describes OPG's proposed approach for clearing the deferral and variance account balances described in Ex. H1-1-1.

2.0 SUMMARY

OPG is requesting payment riders for regulated hydroelectric and nuclear production to recover audited actual deferral and variance account balances as of December 31, 2012, using separate payment riders for the nuclear and hydroelectric accounts, effective January 1, 2013. Amortization amounts and payment riders described in this exhibit are based on projected December 31, 2012 balances. Prior to payment rider finalization, OPG will file audited December 31, 2012 balances, similar to the process followed in setting riders in EB-2010-0008. Since the audited balances will not be available until early February, 2013 and the current riders expire December 31, 2012, OPG proposes that the OEB continue and declare interim the EB-2010-0008 approved nuclear rider as of January 1, 2013. OPG is proposing that the current hydroelectric rider be allowed to expire because it is negative and, thus, its continuation would only increase the shortfall to be recovered. OPG proposes to recover resulting variances in recovery amounts during the period January 1, 2013 to the implementation date of the new riders through additional Interim Period Shortfall Riders ("IPSR") for each of regulated hydroelectric and nuclear production determined in the manner described in Section 6.0.

The methodology for the proposed recovery of deferral and variance account balances is described in Section 3.0. The recovery of hydroelectric deferral and variance account balances is discussed in Section 4.0. The recovery of nuclear deferral and variance account balances is discussed in Section 5.0. Interim Period Shortfall Riders are discussed in Section 6.0.

3.0 METHODOLOGY

The use of payment riders in the form of a \$/MWh rate is consistent with the OEB's Decision

1 and Payment Amounts Order in EB-2010-0008.

2
3 Riders are calculated in three steps. First, a recovery period is determined for each account
4 to be cleared. Second, based on each account's recovery period, the amount to be
5 amortized over the period is determined. Finally, the total amount to be amortized during the
6 period is divided by energy production to determine the payment rider.

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8 As this is not a complete cost of service application with a future test period, OPG will not
9 calculate riders on the basis of a future production forecast. Rather, OPG proposes to use
10 the EB-2010-0008 OEB-approved 2011/2012 test period forecast production to calculate
11 riders. As the payment riders are based on forecast production, any differences between
12 forecast and actual production will cause, in any event, an over or under-recovery variance,
13 which will be recorded in the Hydroelectric and Nuclear Over/Under Recovery Variance
14 Accounts as consistent with the EB-2010-0008 Decision and Payment Amounts Order.

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16 **4.0 RECOVERY OF HYDROELECTRIC DEFERL AND VARIANCE ACCOUNTS**

17 The method of calculation for the regulated hydroelectric payment rider is as shown in Ex.
18 H1-2-1, Table 1 using projected December 31, 2012 balances. The actual rider will be set
19 during the finalization process for the payment rider order using audited December 31, 2012
20 balances.

21
22 OPG is proposing to defer clearance of the Hydroelectric Incentive Mechanism and
23 Hydroelectric Surplus Baseload Generation Variance Accounts and the hydroelectric portion
24 of the Capacity Refurbishment Variance Account for the reasons discussed in Ex. H1-1-1,
25 Sections 4.4 and 5.5.

26
27 Consistent with the payment amounts orders in EB-2007-0905 and EB-2010-0008, OPG
28 proposes a single payment rider beginning January 1, 2013 to recover all applicable
29 regulated hydroelectric account balances. The use of one payment rider is administratively
30 simple.

31

1 OPG proposes to clear the December 31, 2012 balances in the regulated hydroelectric
2 deferral and variance accounts on a straight line basis using amortization periods for the
3 various accounts as described below.

4
5 The balance in the Pension and OPEB Cost Variance Account will be amortized over a 48-
6 month period from January 1, 2013 to December 31, 2016. This extended amortization
7 period was chosen to lessen ratepayer impact.

8
9 All other account balances will be amortized over a 24-month period from January 1, 2013 to
10 December 31, 2014. This recovery period is also consistent with the EB-2010-0008 approved
11 recovery period for the Tax Loss Variance Account ending December 31, 2014.

12
13 The total amortization amount over the 24-month period January 1, 2013 to December 31,
14 2014 is divided by the EB-2010-0008 approved test period regulated hydroelectric production
15 forecast to calculate the payment amount rider.

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17 The derivation of amortization amounts and calculation of the regulated hydroelectric rider
18 based on projected year-end 2012 balances is shown at Ex. H1-2-1, Table 1.

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20 **5.0 RECOVERY OF NUCLEAR DEFERRAL AND VARIANCE ACCOUNTS**

21 The method of calculation of the nuclear rider is as shown in Ex. H1-2-1, Table 2 using
22 projected December 31, 2012 balances. The actual rider will be set during the finalization
23 process for the payment rider order using audited December 31, 2012 balances.

24
25 Consistent with the payment amounts orders in EB-2007-0905 and EB-2010-0008, OPG
26 proposes a single rider beginning January 1, 2013 to recover nuclear account balances. The
27 use of one payment rider is administratively simple.

28
29 OPG proposes to clear the December 31, 2012 balances in the nuclear deferral and variance
30 accounts on a straight line basis using amortization periods for the various accounts
31 described below.

1 The balances in the Bruce Lease Net Revenues Variance Account and the Pension and
2 OPEB Cost Variance Account will be amortized on a straight line basis over the 48-month
3 period from January 1, 2013 to December 31, 2016. These extended amortization periods
4 were chosen to lessen ratepayer impact.

5
6 Other account balances will be amortized on a straight line basis over the 24-month period
7 from January 1, 2013 to December 31, 2014. As noted in Section 4.0 above this recovery
8 period is also consistent with the EB-2010-0008 approved recovery period for the Tax Loss
9 Variance Account ending December 31, 2014.

10
11 The total amortization amount over the 24-month period January 1, 2013 to December 31,
12 2014 is divided by the EB-2010-0008 approved test period nuclear production forecast to
13 calculate the payment amount rider.

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15 The Derivation of amortization amounts and calculation of the nuclear rider based on
16 projected year-end 2012 balances is shown at Ex. H1-2-1, Table 2.

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18 **6.0 INTERIM PERIOD SHORTFALL RIDERS**

19 Since the new payment riders will not be implemented by January 1, 2013, OPG is
20 requesting separate IPSR for regulated hydroelectric and nuclear production to recover the
21 revenue shortfall resulting from the difference during the interim period between approved
22 payment riders and the interim riders. Consistent with the proposal to use the EB-2010-0008
23 approved forecast production to set the new riders, the interim period production values used
24 to calculate the differences would be equal to the average of the 2011 and 2012 forecast
25 production for the corresponding months underpinning the EB-2010-0008 payment amounts.
26 The IPSR would be effective until December 31, 2014.

27
28 The IPSR for each of regulated hydroelectric and nuclear would be calculated as follows:

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$$\text{IPSR} = \frac{[(\text{Approved Rider} - \text{Interim Rider}) \times \text{Interim Period Production Forecast}]}{(\text{Production Forecast used to set Approved Rider} - \text{Interim Period Production Forecast})}$$

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- 1 If, for example, the implementation date of the new approved rider is March 1, 2013, the
- 2 interim period production forecast would be based on the January and February values in the
- 3 production forecast used to calculate the new rider.