BRUCE LEASE NET REVENUES VARIANCE ACCOUNT

1.0 PURPOSE

This evidence presents the revenues earned by OPG under the Bruce Lease Agreement and associated agreements ("Bruce Lease") and the related costs incurred by OPG with respect to the Bruce Nuclear Generating Stations that underpin the entries into the Bruce Lease Net Revenues Variance Account for 2011 and 2012 as shown in Ex. H1-1-1, Table 14.

2.0 OVERVIEW

Section 3 of this exhibit discusses the Bruce Lease and associated agreements. Section 4 considers Bruce Lease revenues and explains the 2011 and 2012 variances associated with each major revenue item.[1] Section 5 considers the costs associated with the Bruce facilities and explains the 2011 and 2012 variances associated with each major item. Section 6 summarizes the impact of the current approved Ontario Nuclear Funds Agreement ("ONFA") Reference Plan (discussed in Ex. H2-1-1) on the 2012 additions to the Bruce Lease Net Revenues Variance Account. Section 7 describes the calculation of entries into the account and the projected year-end 2012 balance.

Actual (2011) or projected (2012) additions to the Bruce Lease Net Revenues Variance Account are a credit to customers of ($13.6M) for January and February 2011, and amounts to be recovered by OPG of $70.4M and $305.2M for March to December 2011 and 2012, respectively, as shown in Ex. H1-1-1, Table 14. The projected account balance at December 31, 2012 is $368.2M.

3.0 THE BRUCE LEASE AND ASSOCIATED AGREEMENTS

OPG has leased its Bruce A and Bruce B Nuclear Generating Stations and associated lands and facilities to Bruce Power L.P. ("Bruce Power"). The Bruce Lease sets out the main terms and conditions of the lease arrangement between OPG and Bruce Power, including lease payments. The initial term of the lease expires on December 31, 2018 with Bruce Power having the option to extend the lease for up to 25 years. As explained in EB-2010-0008,

[1] The impact of the adoption of USGAAP on Bruce Lease net revenues is discussed in Ex. A3-1-2.

however, OPG and Bruce Power reached an agreement that effectively binds Bruce Power to the renewal of the Bruce Lease beyond the initial expiry date.[2] In addition, OPG and Bruce Power have entered into a number of associated agreements for the provision of services by OPG to Bruce Power or by Bruce Power to OPG.

As in EB 2010-0008, the treatment of revenues and costs associated with the Bruce Lease and associated agreements are based on the OEB's Decision in EB-2007-0905. The methodology for allocating revenues and costs to the Bruce facilities and under the Bruce Lease is unchanged from that presented in EB-2010-0008. In 2010 Black & Veatch Corporation Inc. ("Black & Veatch") reviewed this allocation methodology and found it appropriate and it was accepted by the OEB in EB-2010-0008.

4.0 REVENUES FROM BRUCE LEASE AND ASSOCIATED AGREEMENTS

Sections 6(2)9 and 6(2)10 of O. Reg. 53/05 provide that the OEB shall ensure that OPG recovers all the costs it incurs with respect to the Bruce Nuclear Generating Stations, and that any revenues earned from the Bruce Lease in excess of costs be used to offset the nuclear payment amounts.

As discussed in EB-2010-0008, revenues are derived from the Bruce Lease and associated agreements. The latter include the Used Fuel Waste and Cobalt-60 Agreement, the Low and Intermediate Level Waste Agreement, and the Bruce Site Services Agreement. Sections 4.1 through 4.4 describe these four sources of revenue.

4.1 Bruce Lease Revenues

Bruce Lease revenues consist of: base rent, including the amortization of initial deferred rent, discussed in Section 4.1.1, and supplemental rent discussed in Section 4.1.2. These revenues are presented in Ex. H1-1-1, Table 14(a).

4.1.1 <u>Base Rent Revenue</u>

The Bruce Lease contains a base rent amount that is set out in the lease and is fixed for

[2] EB-2010-2008, Ex. G2-2-1, page 3.

each year of the lease. As per the OEB's direction in EB-2007-0905, OPG determines lease revenue on a straight-line, rather than a cash, basis as this is in accordance with generally accepted accounting principles for non-regulated businesses.

The straight-line basis requires recognition of an equal amount of lease revenue over the expected term of the lease. This amount is determined by dividing the total expected fixed component of lease revenues over the expected lease term by the number of years in the lease term. Based on the accounting reassessment of the lease following the agreement noted in Section 3.0 above, effective late-2008 the expected lease term for accounting purposes was extended to December 2036.

Because there have been no changes in the term of the lease, and hence no changes in the period over which base lease payments are recognized, there are no variances between budgeted and actual amounts of base rent revenues in 2011 and 2012.

4.1.2 Supplemental Rent Revenue

In addition to the predetermined amount of base rent, Bruce Power also pays a variable amount of supplemental rent. The supplemental rate is currently in the order of $31M per unit per year (in 2012 dollars) and is applied on the basis of the number of generating units operational in a given calendar year. In accordance with the Bruce Lease, when certain Bruce A units, including Units 1 and 2, are refurbished and declared in service, the supplemental rent for each refurbished unit is reduced to approximately $6.9M per year (in 2012 dollars). The full amount of supplemental rent is due to OPG regardless of how much a unit operates during a given year except in a year, such as is projected for 2012, in which a refurbished Bruce A unit is returned to service. In a return-to-service year, the supplemental rent for a refurbished unit is pro-rated. The supplemental rent payments are escalated annually by the Consumer Price Index (Ontario) ("CPI").

Supplemental rent revenue is generally recognized on a cash basis for financial accounting purposes because it is not a fixed amount and is contingent on the number and operational state of Bruce units. Supplemental rent is also dependent on the Hourly Ontario Energy Price ("HOEP"). A provision in the Bruce Lease requires a partial rebate by OPG to Bruce Power of the supplemental rent payments for the Bruce B units in a calendar year where the annual arithmetic average of the HOEP ("Average HOEP") falls below $30/MWh, and certain other conditions are met.

As discussed in the EB-2010-0008 evidence, this conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, must be accounted for as a derivative.[3] The derivative is measured at fair value for financial accounting purposes and changes in its fair value are recognized as adjustments to revenue.[4] The fair value is derived based on the present value of the probability-weighted expectations of reductions in supplemental rent payments in the future as a result of Average HOEP falling below $30/MWh calculated over the remaining accounting service life of the applicable Bruce units.

In a year where Average HOEP falls below $30/MWh, the reduction in the supplemental rent payments to OPG determined at the end of that year typically would be offset by a reduction in the derivative liability. The resulting net effect is that the amount of supplemental rent revenue recognized for accounting purposes in that year would be unchanged. However, any change to the present value of the expected reductions in payments over the derivative's remaining life (i.e., in subsequent years) must be recognized as an adjustment to the fair value of the derivative liability and revenue in the current year.

OPG calculates the fair value of the derivative using a valuation model. Ernst & Young ("E&Y"), OPG's external auditor, independently reviewed the significant inputs used in the model, the model itself and the resulting valuation as part of the audit of OPG's financial statements for 2011.[5] The E&Y review involved specialized valuation experts.

The 2011 supplemental rent revenue is $25.7M less than the EB-2010-0008 approved forecast amount as shown in Ex. H1-1-1, Table 14a. The majority of this amount, $23M, is attributable to the increase in the fair value of the liability for the embedded derivative

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[3] EB-2010-2008, Ex. G2-2-1, page 4

[4] This accounting treatment is the same under CGAAP and USGAAP.

[5] Similar reviews were conducted as part of the 2009 and 2010 audits.

calculated using the valuation model described above and recognized in OPG's 2011 audited consolidated financial statements. The increased fair value of the liability is based on the expectation of rent payment reductions in the years beyond 2011. Since the Average HOEP was above $30/MWh in 2011, there was no reduction in the supplemental rent payments received by OPG for that year.[6] The remainder of the variance is attributable to the fact that the forecast return to service in 2011 of one of the Bruce A units being refurbished did not occur, partially offset by higher than forecast CPI.

The service lives used to estimate the fair value of the derivative liability are consistent with the accounting assumptions used for depreciation purposes. The value of the derivative liability up to the end of 2011 does not include any change in the expected service lives of the Bruce units from those provided in EB-2010-0008.

Effective December 31, 2012, OPG expects to extend the estimated average service life of the Bruce B station from 2014 to 2019 for accounting purposes.[7] This extension would result from OPG having achieved a high level of confidence that the fuel channel assemblies are fit to serve over a longer period (as discussed in Ex. H2-2-1). The assemblies are considered to be the life-limiting component of the Bruce units.

In total, the 2012 supplemental rent revenue forecast is $354.2M less than the EB-2010-0008 approved forecast, as shown in Ex. H1-1-1, Table 14a. The extended average service life is projected to increase the fair value of the derivative liability at December 31, 2012 by approximately $306M based on current probability-weighted expectations of future Average HOEP over the additional life of the applicable Bruce units. Therefore, the supplemental rent revenue forecast for 2012 includes a reduction of approximately $306M that must be recognized in accordance with generally accepted accounting principles in 2012 due to the life extension. The same audited valuation model as that used to determine the actual fair value in 2011 and prior years has been used to determine the above projections for 2012.

[6] In contrast, the Average HOEP for the first six months of 2012 was $19.62/MWh.
[7] Effective December 31, 2012, OPG also expects to extend the estimated average service life of the Bruce A station to 2048 for the same reasons. This has no impact on the value of the derivative, as the conditional reduction in supplemental rent currently applies to Bruce B units only.

An additional $43M of the variance is attributable to changes to the fair value of the derivative liability during the first six months of 2012 due to increasing expectations of rent payment reductions in the future that are independent of the estimated impact of the average service life extension. The remainder of the 2012 variance, approximately $5.2M, is attributable to the fact that the EB-2010-0008 forecast assumed earlier return-to-service dates for the Bruce A Units 1 and 2 than are currently expected, partially offset by current CPI projections being above forecast.

4.2 Used Fuel Waste and Cobalt-60 Agreement Revenues

Under the Used Fuel Waste and Cobalt-60 Agreement, OPG provides used fuel interim storage and long-term disposal services to Bruce Power for the used nuclear fuel generated in the Bruce A and Bruce B reactors. OPG has also accepted liability for the interim storage and future disposal of Bruce Power's spent cobalt-60, and, in return, OPG receives payments from Bruce Power as set out in Ex. H-1-1, Table 14(a). Revenues for cobalt-60 storage and disposal services under this agreement are recorded as the services are provided.

There was no variance associated with this revenue source in 2011 and none is projected for 2012.

4.3 Low and Intermediate Level Waste Agreement Revenues

Under the Low and Intermediate Level Waste Agreement, OPG is obligated to manage (i.e., collect, store, and dispose of) low and intermediate level radioactive waste generated by Bruce Power. In return, Bruce Power pays OPG a fee for the provision of low and intermediate level radioactive waste management services. The fee is volume-based, escalated annually by the CPI, and determined on the basis of OPG's estimated future costs of managing the low and intermediate level waste generated by Bruce Power. Revenues under this agreement are recorded as the services are provided.

The impact of the Low and Intermediate Level Waste Agreement on revenues from Bruce Power is set out in Ex. H1-1-1, Table 14(a). Actual waste services revenue in 2011 was $1M higher than the EB-2010-0008 approved forecast. For 2012, waste service revenues are expected to be $2.4M higher than the approved EB-2010-0008 forecast amount. These variances are primarily a result of variances in the actual (2011) or expected (2012) volumes of waste received from Bruce Power under this agreement. OPG projects revenues based on waste volume information received from Bruce Power. Based on this information, volumes received were (2011) or are currently projected to be (2012) higher than originally estimated.

4.4 Bruce Site Services Agreement Revenues

This agreement provides for various support and maintenance services that are provided by OPG to Bruce Power, and by Bruce Power to OPG, on a cost recovery basis. The services contemplated by this Agreement are necessary to accommodate the joint occupancy and use of the Bruce site by OPG and Bruce Power.

OPG's site service revenues are set out in Ex. H1-1-1, Table 14(a). Revenues in 2011 were $0.5M higher than the EB-2010-0008 forecast and are currently projected to be $0.2M higher for 2012.

5.0 COSTS FROM BRUCE LEASE AND ASSOCIATED AGREEMENTS

Section 6(2)9 of O. Reg. 53/05 provides that the OEB shall ensure that OPG recovers all the costs that it incurs with respect to the Bruce Nuclear Generating Stations. In order to record entries into the Bruce Lease Net Revenues Variance Account, OPG tracks variances in the cost components ("Bruce Costs") discussed in this exhibit.

As noted above, Black & Veatch reviewed OPG's methodology for assigning and allocating costs to the Bruce facilities and under the Bruce Lease in 2010. Black & Veatch concluded that the methodology is appropriate, properly reflects the costs OPG incurs and complies with the OEB's Decision in EB-2007-0905. This methodology was accepted by the OEB in EB-2010-0008. This same methodology is used in this Application.

The following categories of Bruce Costs are presented in Ex. H1-1-1, Table 14(a):

- Depreciation: Depreciation is calculated on the fixed assets owned by OPG at the Bruce site and leased to Bruce Power. These fixed assets include the associated asset retirement costs ("ARC") as discussed in Ex. H2-1-1. OPG applied the same depreciation methodology as in EB-2010-0008 to derive the depreciation expense for 2011 and 2012.

For 2011, actual depreciation expense was $1.3M lower than the EB-2010-0008 approved forecast amount, mainly as a result of an extension to the estimated average service life of the Bruce A station for accounting purposes, which was not assumed in the EB-2010-0008 forecast. For 2012, depreciation is projected to be $43.2M higher than the EB-2010-0008 approved forecast amount (Ex. H1-1-1, Table 14a). The 2012 variance reflects an increase of approximately $50M (also shown in Section 6.0 below) as a result of the December 31, 2011 increase to the asset retirement obligation ("ARO") and ARC attributed to Bruce of $495.1M arising from the current approved ONFA Reference Plan as shown in Ex. H2-1-1, Tables 2 and 3. This increase is offset by a $6.9M decrease in 2012 mainly attributable to extensions of the estimated average service life of the Bruce A station for accounting purposes, which was not assumed in the approved forecast. The change in the nuclear ARO on December 31, 2011 and the expected change on December 31, 2012 are discussed in Ex. H2-1-1.

- Property Tax: Pursuant to the provisions of the Bruce Lease, OPG pays the property taxes for the Bruce site as a whole. OPG manages the annual tax assessment process and payments of municipal property taxes to the Municipality of Kincardine and payments-in-lieu of property tax to the Ontario Electricity Financial Corporation ("OEFC"). Compared to the EB-2010-0008 approved forecast amounts, property tax expense was $1.4M lower in 2011 and is projected to be $1.7M lower in 2012 as shown Ex. H1-1-1, Table 14a. These decreases are due to lower than forecast municipal tax rates.

- Accretion: The accretion expense represents the growth in the ARO due to the passage of time. The actual (2011) and projected (2012) expense has been derived using the same methodology as described in EB-2010-0008, Ex. G2-2-1, Section 5.0. The 2012 forecast expense is derived by reference to the actual ARO balance as at December 31, 2011, and additional used fuel storage and disposal and waste management variable expenses (discussed below) and expenditures on activities expected to draw down the ARO during 2012. The actual ARO balance includes the December 31, 2011 increase of $495.1M in the Bruce ARO referred to in the depreciation expense explanation above.

As at December 31, 2011, the total portion of OPG's ARO related to the Bruce assets was $6,107.7M, which consists of four different tranches representing the initial ARO and each of the subsequent increases with the fourth tranche being the previously discussed December 31, 2011 increase of $495.1M (See Ex. H2-1-1, Table 2). A different discount/accretion rate is used to calculate each tranche.

The forecast accretion expense for 2012 is derived based on the application of the appropriate accretion rates to the prior year ARO ending balances for each tranche. An accretion rate of 3.43 per cent is applied to the fourth tranche, as discussed in Ex. H2-1-1.

Accretion expense for 2011 was $2.1M higher than the forecast amount approved in EB-2010-0008, a variance of less than one per cent. Projected 2012 accretion expense is $21.3M above the approved EB-2010-0008 forecast amount, which is primarily attributable to the Bruce portion of the ARO increase at December 31, 2011 arising from the current approved ONFA Reference Plan, as presented in Section 6.0 below and explained further in Ex. H2-1-1. Continuity schedules for the Bruce ARO for the 2009 to 2012 period are provided in Ex. H2-1-1, Table 2.

- (Earnings)/Losses on Nuclear Segregated Funds: OPG includes (earnings)/losses resulting from the investments in the nuclear segregated funds pertaining to Bruce stations as (negative)/positive cost associated with Bruce assets. The attribution of the segregated funds to the Bruce stations is as described in EB-2010-0008, Ex. G2-2-1, Section 5.0. The forecast amount for 2012 is based on actual experience for the first six months of the year and a projection for the remainder of the year using a rate of 5.15 per cent (the long-term target rate of return as per the ONFA). This methodology was also applied in EB-2010-0008.

As at December 31, 2011, the actual balance of the nuclear segregated funds attributable to Bruce was $6,002.5M, as shown Ex. H2-1-1, Table 2, line 17. As in EB-2010-0008, the actual and forecast year-end balances of the funds take into account the contributions to and disbursements from the segregated funds during the year based on the approved ONFA Reference Plan.

Earnings in 2011 related to the Bruce portion of the funds were below the approved forecast amount in EB-2010-0008 by $46.1M, as shown in Ex. H1-1-1, Table 14a, line 14. This variance primarily resulted from the decline in global financial markets impacting the value of the Decommissioning Fund. This impact was partially offset by changes in the CPI, which affected the provincially-guaranteed rate of return applicable to the majority of the Used Fuel Fund value. The Provincial guarantee assures a return of 3.25 per cent plus the change in the CPI on the portion of the Used Fuel Fund attributable to the first 2.23 million used fuel bundles, as described in EB-2010-0008 Ex. C2-1-1, Section 3.2.

Currently, 2012 earnings are projected to be $17.7M above the EB-2010-0008 approved forecast amount reflecting better than expected returns from both the Decommissioning and Used Fuel Funds during the first six months of the year. This amount may change as market conditions for the remainder of the year continue to impact earnings and therefore, the amount recorded in the Bruce Lease Net Revenues Variance Account. Continuity schedules for the Bruce portion of the segregated funds for the 2009 to 2012 period are provided in Ex. H2-1-1, Table 2.

- Used Fuel Storage and Disposal Costs: OPG incurs variable costs associated with storing and disposing of used nuclear fuel produced by Bruce Power. These costs are included in the period incurred as an expense related to the Bruce assets, and are presented as part of the nuclear fuel expense in OPG's consolidated financial statements.

Used fuel storage and disposal costs in 2011 were $10.1M higher than the EB-2010-0008 approved forecast amount mainly because of a higher volume of fuel bundles associated with the Bruce units. This increase resulted from Bruce Power's installation in 2011 of the initial load of the bundles into the reactors of Bruce A Units 1 and 2 as part of the return to service of those units. The costs for this initial load were not included in the forecasts in EB-2010-0008.

For 2012, costs are projected to be $19.5M higher than the corresponding EB-2010-0008 approved forecast amount, as shown in Ex. H1-1-1, Table 14a, line 14. This increase relates to the increase in variable costs primarily due to higher dollar per bundle variable cost rates for 2012, which reflect the accounting impact of the current approved ONFA Reference Plan, as shown in Section 6.0. The impact of the current approved ONFA Reference Plan on variable rates is discussed in Ex. H2-1-1.

- Waste Management Variable Expenses: The variable costs associated with managing the quantities of low and intermediate level radioactive nuclear waste produced by Bruce Power are included as a period expense related to Bruce assets.

These expenses were largely in line with EB-2010-0008 approved forecast amount in 2011. For 2012, OPG is projecting a $1.1M increase over the EB-2010-0008 approved forecast amounts. The increase is mainly attributable to higher low and intermediate level waste variable cost rates in 2012 reflecting the accounting impact of the current approved ONFA Reference Plan, as shown in Section 6.0. The impact of the current approved ONFA Reference Plan on variable rates is discussed in Ex. H2-1-1.

- Interest: As in EB-2010-0008, interest related to Bruce assets represents an allocation of OPG's actual/forecast corporate-wide accounting interest cost after attributing project-specific interest to appropriate business units. The allocation is based on the historical proportion that the average net book value of the assets leased to Bruce Power represents of the total average net book value of OPG's in-service fixed assets (excluding in-service fixed assets financed by project-specific debt). This approach is unchanged from that described in EB-2010-0008.

For 2011, interest expense associated with Bruce assets was slightly lower than the EB-2010-0008 approved forecast amount. For 2012, OPG projects interest expense to be similar to the 2011 actual amount ($11.7M for 2012 versus $11.6M in 2011). The EB-2010-0008 approved forecast amount for 2012 of $6.9M included a reduction in the amount of interest attributed to Bruce assets.

- Current Income Taxes: OPG follows the same methodology reflected in the payment amounts approved by the OEB in EB-2010-0008. Current income taxes for Bruce assets continue to be calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. The amount of taxes is determined by applying the substantively enacted statutory tax rate to taxable income. Taxable income is computed by making adjustments, in accordance with applicable legislation, to the Bruce stand-alone accounting earnings before tax determined in accordance with generally accepted accounting standards, as applicable, for items with different accounting and tax treatment. With the exception of the deduction related to the supplemental rent reduction described below, the main adjustments were previously described in EB-2010-0008 Ex. G2-2-1, Section 5.1. The derivation of taxable income and current tax expense for 2011 (actual) and 2012 (projected) is shown in Ex. H1-1-1, Table 14(b).

As forecast in EB-2010-0008, the actual current income tax expense for the Bruce assets in 2011 was nil because the unutilized tax losses carried forward from prior years were sufficient to fully offset the taxable income in 2011.

A small tax loss is currently projected for 2012, while the EB-2010-0008 forecast for 2012 was based on a taxable income. The difference is mainly due to a higher current projection of cash expenditures for used fuel, waste management and decommissioning and the forecast reduction in the supplemental rent payment to OPG during 2012 under the Bruce Lease as discussed above. The reduction in the supplemental rent payment results in a deduction from earnings before tax in computing taxable income/tax loss. While the reduction in the supplemental rent payment does not impact 2012 revenues (and therefore earnings before tax) as discussed above, the lower payment is recognized as a reduction in income under the *Income Tax Act* (Canada).

- Future Income Taxes: OPG follows the same methodology reflected in the payment amounts approved by the OEB in EB-2010-0008. The future income tax expense related to the Bruce assets is determined in accordance with financial accounting requirements for unregulated entities. The future income taxes related to Bruce assets for 2011 (actual) and 2012 (projected) are calculated on a stand-alone basis using the actual or forecast Bruce Lease revenues and Bruce Costs, and are shown in Ex. H1-1-1, Table 14(b).

Generally, future income taxes represent the amount of tax that will be payable/recoverable in the future upon reversal of temporary differences between the tax basis and the accounting carrying value of items recorded in the current year. For example, the current income tax benefit of the difference between accelerated depreciation for income tax purposes (Capital Cost Allowance, or "CCA"), and a lower accounting depreciation expense is recorded as a future income tax liability and expense to match the higher earnings before tax. When this difference reverses (i.e., when the accounting depreciation expense becomes higher than CCA) and, consequently, the earnings before tax become lower than taxable income, the future income tax liability is reversed through a reduction to the future income tax expense in order to recognize the actual taxes payable for that year. The future income tax benefits of tax losses incurred in a given year are treated in a corresponding manner.

The actual future tax expense for 2011 was $19.9M lower than the EB-2010-0008 forecast amount mainly due to lower than forecast segregated fund earnings during the year and the increase in the fair value of the liability for the embedded derivative recognized in 2011, which is not deductible under the *Income Tax Act* (Canada).

The current projection of the future tax expense for 2012 is $96.9M lower than the EB-2010-0008 amount for two main reasons. First, the current forecast includes the impact of the projected increase in the fair value of the liability for the embedded derivative, partially offset by the net impact of differences in depreciation and accretion expenses and segregated fund earnings. Second, the current 2012 forecast is based on a tax loss position whereas the EB-2010-0008 forecast was based on taxable income partially offset by the utilization of carried forward losses. The tax benefit of the currently projected tax loss will be carried forward to subsequent periods and, therefore, is recognized as a reduction of future taxes in 2012.

6.0 IMPACT OF THE CURRENT APPROVED ONFA REFERENCE PLAN ON THE BRUCE LEASE NET REVENUES VARIANCE ACCOUNT

Section 6(8) of O. Reg. 53/05 provides that the OEB "ensure that OPG recovers the revenue requirement impact of its nuclear decommissioning liability arising from the current approved reference plan."[8] The OEB determined in EB-2007-0905 that the cost impact of any changes in nuclear liabilities related to the Bruce stations should be recorded in the Bruce Lease Net Revenues Variance Account rather than in the Nuclear Liability Deferral Account, as discussed in Ex. H2-1-1.

The revenue requirement impacts of the current approved ONFA Reference Plan on costs related to the Bruce facilities in 2012 are determined using the methodology referenced in Ex H2-1-1. The current approved reference plan was effective as of January 1, 2012, thus there are no impacts for 2011. Impacts for 2012 are forecast in the areas of depreciation, accretion expense, variable expenses and income taxes, and are projected to total approximately $70M, as shown below.

Chart 1: Forecast Impacts of Current Approved ONFA Reference Plan

Cost Item	**2012 Amount ($M)**
Depreciation	50
Accretion	18
Used Fuel and Waste Management Variable Expenses	26
Income Taxes*	(24)
Total	**70**

* The income tax impact relates to the higher taxable temporary differences due to higher depreciation, accretion and variable expenses, which are not deductible for income tax purposes. The impact is computed by applying the 2012 tax rate of 25 per cent to the increase in these expenses.

7.0 CALCULATION OF ADDITIONS TO THE BRUCE LEASE NET REVENUES VARIANCE ACCOUNT

The Bruce Lease Net Revenues Variance Account captures differences between the OEB-approved forecasts of revenues and costs related to the Bruce Lease (discussed above) and OPG's actual revenues and costs in respect of the Bruce facilities.

OPG compares actual Bruce Lease revenues net of costs credited to customers in each

[8] The "nuclear decommissioning liability" is defined in O. Reg. 53/05 (section 0.1) as "the liability of Ontario Power Generation Inc. for decommissioning its nuclear generation facilities and the management of its nuclear waste and nuclear fuel."

month through current payment amounts to the actual net revenues realized by OPG for that month. The differences are recorded in the Bruce Lease Net Revenues Variance Account.

As shown in Ex. H1-1-1, Table 14, the Bruce Lease net revenues included in the 24-month 2011/2012 revenue requirement approved in the EB-2010-0008 Payment Amounts Order were divided by the approved 24-month forecast nuclear production to determine a rate that reflects the customer credit contained in the current nuclear payment amount. Starting in March 2011, this rate is multiplied by the actual (2011) or projected (2012) monthly production to derive the amount of net revenues credited to customers. This amount is compared to the actual net revenues realized by OPG in each month, with the difference recorded in the Bruce Lease Net Revenues Variance Account.

For January and February 2011, in accordance with the EB-2009-0174 Decision and Order, the same approach was applied using the EB-2007-0905 approved forecast amounts to calculate the equivalent rate. This was the same rate that was reflected in the December 31, 2010 balance of the variance account approved for recovery in EB-2010-0008.

As shown in Ex. H1-1-1, Table 14, the resulting actual (2011) or projected (2012) additions to the Bruce Lease Net Revenues Variance Account are a credit to customers of ($13.6M) for January and February 2011, and amounts to be recovered by OPG of $70.4M and $305.2M for March to December 2011 and 2012, respectively. The projected 2012 amount includes the estimated additions of $70M arising from the current approved ONFA Reference Plan as discussed in Section 6.0 above. The resulting projected year-end 2012 balance in the account, inclusive of interest and net of amortization for 2011 and 2012 as shown in Ex. H1-1-1, Tables 1a through 1c, is $368.2M.