IMPACT STATEMENT

This exhibit has been prepared to show the impact of three changes since OPG filed its application in May 2010. The three changes are:

1. Increased fees for 2011 and 2012 from the Canadian Nuclear Safety Commission ("CNSC") which impact Nuclear Base OM&A;
2. Changes to Management compensation as a result of the *Public Sector Compensation Restraint to Protect Public Services Act, 2010* (the "Public Sector Compensation Restraint Act"); and
3. Changes to forecast pension and other post employment benefit ("OPEB") costs, primarily as a result of changes to forecasts of discount rates and actual pension fund performance.

Each of these matters is described separately below.

<u>CNSC Fees</u>

As indicated in the response to interrogatory L-12-027, OPG has been informed by the CNSC of increased regulatory fees for the test period. Licensing costs include the cost of CNSC staff directly involved with OPG issues, as well as an allocation for the associated regulatory support effort, indirect regulatory activities and overheads. The drivers of the increased fees include: alignment of regulatory practices to International Atomic Energy Agency guidance documents; the demand for CNSC attention to planning for industry-wide refurbishment activities and new nuclear; and the CNSC need to recruit and train staff to meet the anticipated demands.

The estimated revenue requirement impact of the increase in CNSC fees is $13M over the test period.

<u>Management Compensation</u>

The Public Sector Compensation Restraint Act was introduced after OPG's business plan for

2010-2014 had been approved. The Act addresses restrictions to increases in compensation for employees that do not collectively bargain compensation. For OPG, the Public Sector Compensation Restraint Act will impact Management employees.

As indicated in interrogatory L-01-075, OPG included an increase of 3 per cent in each of 2011 and 2012 in its Management compensation levels. As a result of the *Public Sector Compensation Restraint Act*, OPG is removing Management wage escalation for the period to April 1, 2012 from its test period revenue requirement for the regulated facilities, reducing costs by $12M.

Pension and OPEB Costs

As discussed in section 6.3.2 of Ex. F4-T3-S1, the projection of pension and OPEB costs requires an estimate of the value of the benefit obligations and the pension fund assets. Pension and OPEB costs are subject to significant variability to the extent that forecast assumptions, such as the discount rates, and assumed pension fund performance are different from actual values as of the end of the year preceding the forecast year.

The pension and OPEB costs forecasts in OPG's application for 2011 and 2012 were based on discount rates (presented in Chart 8 of Ex. F4-T3-S1) forecast during the 2010-2014 business planning process. Since the beginning of 2010, these discount rates have declined significantly. This decline has caused an increase in the forecast pension and OPEB costs for the test period. Specifically, the discount rates used to project pension, other post retirement benefits and the long-term disability plan costs have decreased from 6.80%, 7.00% and 5.25%, respectively, to 5.70%, 5.70% and 4.40%, respectively, as of the end of August 2010. The updated estimates of discount rates were provided by external actuaries.

Chart 8 of Ex. F4-T3-S1 also shows that pension cost forecasts were based on assumed rates of return on the pension fund assets of 9.0% in 2009 and 7.0% in 2010. The actual return for 2009 was approximately 15%, and the 2010 actual return as of the end of August 2010 is approximately 2.5%. The net effect of the updated returns for the two years is to offset, in part, the increase in pension costs due to changes in forecast discount rates.

OPG's updated total pension and OPEB costs for 2011 and 2012 have been projected by external actuaries as of the end of August 2010. The chart below shows the portion of these updated costs for 2011 and 2012 attributable to the prescribed facilities, as compared to the amounts included in the application per Ex. F4-T3-S1, Chart 9. The total projected increase over the two test years is $251.5M for nuclear and $12.7M for regulated hydroelectric.

Updated Pension and OPEB Costs ($M)

	Nuclear		**Regulated Hydroelectric**	
	2011	**2012**	**2011**	**2012**
Pension Cost				
As per Chart 9, Ex. F4-T3-S1	114.0	162.8	5.8	8.1
Projection as of August 2010	210.2	245.9	10.6	12.3
Increase	96.2	83.1	4.8	4.2
OPEB Cost[1]				
As per Chart 9, Ex. F4-T3-S1	159.3	166.7	8.0	8.3
Projection as of August 2010	196.5	201.7	9.9	10.1
Increase	37.2	35.0	1.9	1.8
Total Test Period Increase	251.5		12.7	

[1]Supplementary pension plans costs are included with OPEB costs.

Conclusion

The first two changes considered in this impact statement are effectively offsetting and OPG does not propose to revise its revenue requirement or payment amounts to reflect them.

Given the potential for significant variability between the updated forecast and actual pension and OPEB costs, OPG is not proposing to revise its proposed payment amounts or payments riders to address the projected increase in these costs. Instead, OPG proposes to address the forecast change to pension and OPEB costs by requesting that the OEB establish a variance account to record the revenue requirement impact of differences between forecast and actual pension and OPEB costs. For the 2011-2012 test period, OPG would bring the balance in this account forward for disposition during its next payment amounts application. OPG will file additional evidence supporting this request when it files the update to its variance and deferral account evidence with updated forecasts of balances for December 31, 2010.