

Ontario Energy
Board

Commission de l'énergie
de l'Ontario



EB-2006-0064

Staff Discussion Paper

Filing Requirements for Ontario Power Generation

Setting Payment Amounts for Prescribed Generation Assets

March 30, 2007

Part 1: Introduction

This document provides the filing requirements for Ontario Power Generation (“OPG”) regarding the setting of payment amounts for OPG’s prescribed generation assets. The Board expects that OPG will comply with these filing requirements. This document is not a statutory regulation, rule or code issued under the Board’s authority and does not preempt the Board’s discretion to make any order or give any direction as it determines necessary concerning any matters raised in relation to the setting of payment amounts for the prescribed generation assets.

This document sets out specific filing requirements for purposes of the setting of payment amounts for certain of Ontario Power Generation’s (“OPG”) generation assets under section 78.1 of the *Ontario Energy Board Act, 1998* (the “Act”). The generation assets in question are identified in the *Payments Under Section 78.1 of the Act Regulation, O. Reg. 53/05* (“Regulation 53/05”) and are: Sir Adam Beck I, Sir Adam Beck II, Sir Adam Beck Pump Generation Station, De Cew Falls I, De Cew Falls II (all of the foregoing being hydroelectric generating stations located in the Regional Municipality of Niagara), the R.H. Saunders hydroelectric generating station on the St. Lawrence River, Pickering A nuclear generating station, Pickering B nuclear generating station and Darlington nuclear generating station (collectively the “prescribed generation assets”).

1.1 Overview of Legislative Context and Regulatory Methodology

Section 78.1 of the Act authorizes the Ontario Energy Board (the “Board”) to set payments to be made to OPG with respect to the output of the prescribed generation assets. Under Regulation 53/05, the Board’s authority in that regard commences on April 1, 2008.

In addition to identifying the prescribed generation assets, Regulation 53/05 empowers the Board to establish the form, methodology, assumptions and calculations to be used in making an order that determines payment amounts for the purpose of section 78.1 of the Act. It also contains rules that must be followed by the Board in setting those payment amounts.

On November 30, 2006, the Board issued its report entitled *A Regulatory Methodology for Setting Payment Amounts for the Prescribed Generation Assets of Ontario Power Generation Inc.* (the “OPG Report”). In the OPG Report, the Board concluded that:

- a series of limited issues cost of service processes will be used to set the base payment that would ultimately then form the basis of an incentive regulation formula;

- the limited cost of service process will be extended over several payment orders until all relevant issues have been determined;
- the first payment proceeding will consider the most substantive issues that are not affected by the prescriptive rules set out in Regulation 53/05; namely, OM&A and rate of return on equity, with each of the nuclear and hydroelectric businesses being reviewed separately; and
- for the Board's first payment proceeding, it is appropriate for OPG to file historical data with the Board for the years 2004, 2005 and 2006, with 2008 (April 1, 2008 to March 31, 2009) to be used as a forward test year.

These filing requirements implement, and are generally consistent with, the regulatory methodology set out in the OPG Report. However, since the issuance of the OPG Report, a number of amendments have been made to Regulation 53/05.¹ Those amendments are reflected in these filing requirements where applicable.

As contemplated in the OPG Report, the Board will review the prescribed hydroelectric and nuclear generation assets in separate sequential proceedings. As a result, the filing requirements set out in Part 2 call upon OPG to make two separate filings, one for each class of assets. The Board may find it expedient to issue orders for each of these classes of assets also in sequence. If that is the case, each of those orders will be treated as the Board's first order for purposes of the application of Regulation 53/05.

1.2 Requirements of Regulation 53/05

Regulation 53/05 affects the setting of payment amounts for the prescribed generation assets in three principal ways; first by requiring that OPG establish certain variance and deferral accounts and that the Board ensure recovery of the balance in those accounts subject to certain conditions being met; second by requiring that the Board ensure that certain costs, financial commitments or revenue requirement impacts be recovered by OPG; and third by setting certain financial values that must be accepted by the Board when it makes its first order under section 78.1 of the Act.

While Regulation 53/05 contains rules to be followed as part of the payment-setting process, the manner in which some elements of Regulation 53/05 are to be applied is not prescriptive in all respects. Practical issues arise as a result, principally in relation to the timing of recording of amounts in the variance and deferral accounts relative to the timing of issuance of the Board's first order.

¹ See O. Reg. 23/07, filed February 9, 2007.

The filing requirements set out in Part 2 call upon OPG to identify its proposed manner of addressing some of these issues. These proposals will provide a starting point for further examination of these issues during the payment-setting hearing. OPG may be required to make supplementary filings in relation to these issues.

1.2.1 Variance Account for Costs Incurred and Revenues Earned or Foregone due to Deviations from Forecasts

Under section 5(1) of Regulation 53/05, OPG must establish a variance account that records capital and non-capital costs incurred and revenues earned or foregone that are associated with certain deviations from forecasts that were used when the current payment amounts were set by regulation. The deviations are associated with the following:

- differences in hydroelectric production due to differences between forecast and actual water conditions;
- unforeseen changes to nuclear regulatory requirements or unforeseen technological changes that directly affect the nuclear generation facilities, excluding the revenue requirement impacts described in sections 5.1(1) and 5.2(1) of Regulation 53/05 (related to changes in nuclear decommissioning liability);
- changes to revenues for ancillary services from the prescribed generation assets;
- acts of God, including severe weather events; and
- transmission outages and transmission restrictions that are not otherwise compensated for through congestion management settlement credits under the market rules.

Revenues earned or foregone are to be calculated based on the prices set out in section 5(2) of Regulation 53/05 and simple interest is to be recorded on the monthly opening balance of the variance account at an annual rate of 6 percent (Regulation 53/05, section 5(3)). In accordance with section 6(2)1 of Regulation 53/05, the Board must ensure that OPG recovers the balance in this variance account over a period not to exceed three years to the extent that the Board is satisfied that (a) the revenues recorded in the account were earned or foregone and the costs were prudently incurred and (b) the revenues and costs are accurately recorded in the account.

Amounts recorded in this variance account cover the period from April 1, 2005. Regulation 53/05 does not, however, specify the last date on which amounts may be so recorded.

It is not expected that this variance account will be used to record amounts subsequent to the effective date of the Board's first order, although a similar one may be approved by the Board if appropriate.

1.2.2 Deferral Account for Non-Capital Costs Associated with Pickering A

Under section 5(4) of Regulation 53/05, OPG must establish a deferral account to record non-capital costs incurred that are associated with the planned return to service of all units at the Pickering A nuclear generating station, including units that the board of directors of OPG has determined should be placed in safe storage.² For this purpose, non-capital costs include construction costs, assessment costs, pre-engineering costs, project completion costs, demobilization costs and interest costs, recorded as simple interest on the monthly opening balance of the account at an annual rate of 6 percent (Regulation 53/05, section 5(5)). In accordance with section 6(2)3 of Regulation 53/05, the Board must ensure that OPG recovers the balance in this deferral account on a straight line basis over a period not to exceed 15 years. In accordance with section 6(5)(i) of Regulation 53/05, the Board in making its first order under section 78.1 of the Act must accept the amounts recorded in this deferral account as set out in OPG's most recently audited financial statements that were approved by the board of directors of OPG before the effective date of that order.

Amounts recorded in this deferral account cover the period from January 1, 2005. Regulation 53/05 does not specify the last date on which amounts may be so recorded. It does, however, require that the Board accept the amounts recorded in this deferral account as set out in OPG's most recently audited financial statements that were approved by the board of directors of OPG before the effective date of the Board's first order.

It is not expected that this deferral account will be used to record amounts subsequent to the effective date of the Board's first order, although a similar one may be approved by the Board if appropriate.

1.2.3 Deferral Accounts for Nuclear Decommissioning Liability³

a) Transitional Account

Under section 5.1(1) of Regulation 53/05, OPG must establish a deferral account to record the revenue requirement impact of any change in its nuclear

² In August, 2005, the board of directors of OPG decided to place units 2 and 3 of Pickering A in safe storage.

³ Regulation 53/05 also contains a provision relating to recovery of the revenue requirement impact of its nuclear decommissioning liability. See section 1.2.4(b) below.

decommissioning liability⁴ arising from an “approved reference plan”,⁵ approved after April 1, 2005, as reflected in the audited financial statements approved by the board of directors of OPG. Simple interest is to be recorded on the monthly opening balance of the deferral account at an annual rate of 6 percent (Regulation 53/05, section 5.1(2)). In accordance with section 6(2)7 of Regulation 53/05, the Board must ensure that OPG recovers the balance in this deferral account on a straight line basis over a period not to exceed 3 years to the extent that the Board is satisfied that the revenue requirement impacts are accurately recorded in the account, based on the following items, as reflected in the audited financial statements approved by the board of directors of OPG: (i) return on rate base; (ii) depreciation expense; (iii) income and capital taxes; and (iv) fuel expense. Section 6(5)(i) of Regulation 53/05 would appear to require that the Board, in making its first order under section 78.1 of the Act, accept the amounts recorded in this deferral account as set out in OPG’s most recently audited financial statements that were approved by the board of directors of OPG before the effective date of that order.

Amounts recorded in this deferral account cover the revenue requirement impact of changes in nuclear decommissioning liability in the period from the date of a post-April 1, 2005 approved reference plan up to the date of the Board’s first order under section 78.1 of the Act.⁶

b) Account After Board’s First Order

Under section 5.2(1) of Regulation 53/05, OPG must establish a deferral account to record the revenue requirement impact of changes in its total nuclear decommissioning liability between (a) the liability arising from the approved reference plan incorporated into the Board’s most recent order under section 78.1 of the Act and (b) the liability arising from the current approved reference plan. Interest is to be recorded on the balance of this deferral account as may be directed by the Board. The rules pertaining to recovery of balances in this deferral account are the same as those that apply to the transitional account as described above.

Amounts recorded in this deferral account cover the revenue requirement impact of changes in nuclear decommissioning liability on and after the effective date of the Board’s first order under section 78.1 of the Act.

⁴ “Nuclear decommissioning liability” is defined in section 0.1 of Regulation 53/05 as the liability of OPG for decommissioning its nuclear generation facilities and the management of its nuclear waste and used fuel.

⁵ “Approved reference plan” is defined in section 0.1 of Regulation 53/05 as a reference plan, as defined in the Ontario Nuclear Funds Agreement, that has been approved by Her Majesty the Queen in right of Ontario in accordance with that agreement. The “Ontario Nuclear Funds Agreement” is the agreement entered into as of April 1, 1999 by Her Majesty the Queen in right of Ontario, OPG and certain subsidiaries of OPG, including any amendments to that agreement.

⁶ According to OPG’s 2006 financial results documentation, posted on OPG’s website on February 16, 2007, an updated reference plan has been approved.

1.2.4 Recovery of Specified Costs Etc.

a) Costs and Commitments Associated with Refurbishment or Increases in Output or Capacity

Under section 6(2)4 of Regulation 53/05, the Board must ensure that OPG recovers capital and non-capital costs and firm financial commitments⁷ incurred to increase the output of, refurbish or add operating capacity to a prescribed generation asset if they were within the project budgets approved for that purpose by the board of directors of OPG before the making of the Board's first order under section 78.1 of the Act. If the costs and financial commitments were not so approved by the board of directors of OPG, they must be recovered if the Board is satisfied that the costs were prudently incurred and the financial commitments were prudently made.

In making its first order under section 78.1 of the Act, the Board must accept the value of these costs and financial commitments as set out in OPG's most recent audited financial statements that were approved by the board of directors of OPG before the effective date of that order (Regulation 53/05, section 6(2)6(iii)).

b) Revenue Requirement Impact of Nuclear Decommissioning Liability

Under section 6(2)8 of Regulation 53/05, the Board must ensure that OPG recovers the revenue requirement impact of its nuclear decommissioning liability arising from the current approved reference plan.

c) Costs and Revenues Associated with Bruce

Under section 6(2)9 of Regulation 53/05, the Board must ensure that OPG recovers all the costs it incurs with respect to the Bruce nuclear generating stations.

If the revenues associated with any lease of the Bruce nuclear generating stations exceed the costs OPG incurs with respect to those stations, the excess must be applied by the Board to reduce the payment amounts set with respect to the prescribed nuclear generation assets (Regulation 53/05, section 6(2)10).

In making its first order under section 78.1 of the Act, the Board must accept the value of OPG's costs incurred with respect to the Bruce nuclear generating stations and OPG's revenues earned from the lease of those stations as set out in OPG's most recent audited financial statements that were approved by the board of directors of OPG before the effective date of that order (Regulation 53/05, sections 6(2)5(ii) and 6(2)5(iii)).

⁷ These specifically include assessment costs and pre-engineering costs and commitments.

1.2.5 Acceptance of OPG Financial Values

Section 6(2)5 of Regulation 53/05 requires that the Board, in making its first order under section 78.1 of the Act, accept the amounts for the following matters as set out in OPG's most recently audited financial statements that were approved by the board of directors of OPG before the effective date of that order:

- OPG's assets and liabilities, other than the variance account referred to in section 1.2.1 above (as noted earlier, this includes the amounts for the deferral account referred to in section 1.2.2 and appears to include the amounts for the deferral account referred to in section 1.2.3(a) above);
- OPG's costs and lease revenues associated with the Bruce nuclear generating stations.

In accordance with section 6(2)6 of Regulation 53/05, the above specifically includes values relating to the following:

- capital cost allowances;
- the revenue requirement impact of accounting and tax policy decisions; and
- costs and financial commitments to refurbish or increase the output or operating capacity of a prescribed generation asset.

1.3 Additional Direction from OPG Report

In addition to the general conclusions referred to in section 1.1 above, the OPG Report contains specific direction regarding the setting of payment amounts for the prescribed generation assets. Some of these are the subject of specific filing requirements set out in Part 2 of these filing requirements, whereas others are not. In the latter case, parties to the proceeding will be asked for their input on these issues at the relevant time. OPG may be required to make supplementary filings in relation to these issues beyond the specific requirements set out in Part 2 below.

The following are the directions which are included in the filing requirements in Part 2:

With respect to the prescribed nuclear generation assets, the Board will solicit input on the question of maximizing the efficient use of those assets (i.e., maximizing availability in peak demand periods), subject to any limitations imposed by the market rules.

With respect to the prescribed hydraulic generation assets, the Board will:

- consider the impact of capital expenditures for the Beck tunnel expansion on OPG's costs and revenue requirement in its first proceeding;⁸
- retain the existing payment structure whereby some of the output of the hydroelectric facilities receives the market price, but will examine whether the existing threshold of 1900 MWh should be changed to encourage more efficient use of these assets;
- examine whether a separate "incentive price" mechanism for setting payments for output from the Beck pump generation facility would be a useful tool to increase the efficient utilization of that asset.

The Board will also solicit input on whether the payment amounts for any of the prescribed generation assets should be capped or limited in some fashion if past payments have exceeded market prices for an extended period.

Part 2: Filing Requirements Framework

2.1 Introduction

The OPG Report indicated that the hydroelectric and nuclear businesses would be reviewed separately and that the first proceeding would consider the most substantive issues that are not affected by the prescriptive rules set out in Regulation 53/05, namely, operations, maintenance & administration and rate of return on equity. **A complete filing is required for each set of assets.**

The Board indicated that 3 years of historical data was required (2004, 2005 and 2006) as well as data for the Bridge Year (2007) and Test Year (2008). For the each of the historic years a detailed variance analysis is required comparing the budget to actual and for the Bridge year a budget to forecast comparison. In addition a detailed variance analysis is also required for each year compared to the prior year. This analysis must explain the reasons for the variance, the drivers of the variance and the contribution of each towards the total year-over-year variance.

Key to both the Hydraulic and Nuclear businesses are their shares of OPG's common corporate costs. A clear explanation of OPG's corporate costs and how those costs are allocated across the businesses is required. This should include

⁸ As noted in section 1.2.4 above, section 6(2)4 of Regulation 53/05 refers to the recovery of capital and non-capital costs and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a prescribed generation asset.

a detailed explanation of how costs are allocated to the Hydraulic and Nuclear businesses and a detailed explanation of how costs are allocated between the regulated and non-regulated operations of the Hydraulic business.

The Board is cognizant of the large number of interrogatories that the rate (or in this case the payment) setting process can generate. OPG should strategically consider the clarity of the evidence, with the goal of providing a clear and concise narrative of its filing. The evidence should be designed to increase the understanding of the parties to the case with the overall objective of reducing the number and scope of interrogatories required.

The separate filings for the hydraulic and nuclear businesses will each contain all of the following eight Exhibits:

Exhibit A	Administrative Documents
Exhibit B	Rate Base
Exhibit C	Operating Revenue
Exhibit D	Operating Costs
Exhibit E	Deferral and Variance Accounts
Exhibit F	Cost of Capital and Rate of Return
Exhibit G	Calculation of Revenue Deficiency or Surplus
Exhibit H	Payment Structure

2.1.1 Key Planning Parameters

The key planning parameters listed below form the basis of how the detailed requirements provided in this document should be interpreted.

The filing should be made in accordance with:

- GAAP (Generally Accepted Accounting Principles)
- GARP (Generally Accepted Regulatory Principles)
- Standard International Units (metric units) protocol, pursuant to the *Weights and Measures Act*

In addition, OPG should meet the following requirements in preparing its filing:

- A minimum of five years of data should be submitted. The years are defined as:
 - Test Year = Prospective Rate Year (2008)
 - Bridge Year = Current Year (2007)
 - Historic Years = Last 3 complete years of actuals (2004, 2005, 2006)
- Multi-year data showing the all Historic Years, Bridge Year and Test Year data must be presented on the same sheet for the summary/main schedules.
- Written direct evidence should be included before the data schedules.
- With respect to the claimed revenue sufficiency/deficiency, OPG should

- provide a summary of the drivers of the Test Year sufficiency/deficiency, along with how much each driver contributes.
- OPG must file ten (10) paper copies and electronic data.
 - A complete filing includes all documentation detailed in this document.

2.1.2 Confidential Information

Unless otherwise directed by the Board, any request for confidential treatment of information by OPG must be made in accordance with the Board's *Practice Direction on Confidential Filings*. It is the expectation of the Board that parties to a proceeding will make every effort to limit the scope of their requests for confidentiality to an extent commensurate with the commercial sensitivity of the information at issue or with any legislative obligations of confidentiality or non-disclosure, and to prepare meaningful redacted documents or summaries so as to maximize the information that is available on the public record.

2.2 Exhibit A Administrative Documents

The administrative documents indicated in this section provide the background and summary to filing. There are three sections:

- 1) Administration
- 2) Overview/summary of the filing, and
- 3) Background financial information.

The detailed requirements for each section are shown below.

This exhibit should be treated as an administrative exhibit and should exclude all other information, such as Volume & Revenue Forecast, Cost of Capital Summary, Rate Base evidence and the O&M budget. These topics should be addressed in the appropriate exhibits that follow.

This exhibit should include a brief summary of OPG's filing regarding specific directions set out in the OPG Report and references to where the detailed evidence can be found (see section 1.3 above).

2.2.1 Administration

- Table of Contents/Exhibit List
- Nature of filing
- Summary of Filing regarding specific directions in the OPG Report
- List of specific approvals requested
- Licence & any restrictions

- List of relevant statutory provisions (such as any provisions of, or regulations under, the *Ontario Energy Board Act, 1998* or the *Electricity Act, 1998*)
- Contact information
- Draft issues list
- Procedural Orders/motions/correspondence
- Accounting Orders
- List of non-compliance with GAAP or GARP and/or Accounting Orders
- Relevant maps or provide link to webpage
- Organization charts
- Planned changes in corporate or operational structure
- Relevant company policies and regulations
- List of witnesses and their curriculum vitae

2.2.2 Overview

- Summary of filing (purpose, need and timing of the filing)
- Budget directives (Capital & Operating)
 - Budget directives and guidelines
 - Economic assumptions used
- Changes in methodology (accounting, etc.) that would affect the Historic, Bridge or Test years.
- Schedule of overall revenue sufficiency/deficiency.
- Numerical schedules detailing the causes of the deficiency/sufficiency.
- Complete and detailed references to the data contained in the detailed schedules and tables should be provided so that parties can map the summary cost driver information to the evidence supporting it.

2.2.3 Finance

- Financial Statements – OPG’s most recent audited financial statements approved by OPG’s board of directors
- Pro Forma Statements for Bridge and Test Year.
- Audited Financial Statements for all filed historic years
- Audited Financial Statements should be provided as soon as they are available. If the statements are not available at the time of filing OPG should provide these as an update.
- Financial Statements – if a reference to location on SEDAR or EDGAR is provided, then provide the URL (Web-page address).
- An overview of how the provisions of Regulation 53/05 are reflected in the filing compared to data in the financial statements.
- To address the concern of a potentially significant variance between the date of the audited financial statements and the date of filing, a detailed reconciliation of the financial results shown in the audited financial statements and the financial results contained in the filing should be provided.
- Rating Agency Reports.

2.3 Exhibit B Rate Base

This exhibit includes information on Rate Base, Capital Budgets, and Asset Additions. Items used in the computations or derived must include opening and closing balances of the net fixed assets, working capital, accumulated depreciation, changes in working capital, accrued deferred earnings, and annual amortization of accrued deferred earnings.

The information presented here should cover three areas:

- 1) List of Gross Assets including capital budgets,
- 2) Accumulated Depreciation, and
- 3) Working Capital Calculation.

For each of these areas there will be some common statements required summarizing the rate base. The schedules for rate base should include all Historic years, Bridge (actuals to date, balance of year as budgeted) Year, and Test Year. Additional required statements for 1 and 2 include:

Continuity Statements (Year-end, including Interest during Construction & All overheads)

- 2004 to 2005
- 2005 to 2006
- 2006 Historic Year to Bridge Year
- Bridge Year to Test Year

Variance Analysis

A written explanation is required for rate base related information when there is a material variance. Materiality is defined as 0.15% or \$17 million of total net fixed assets. This applies to OPG's rate base for the following comparisons:

- 2004 budget vs actual
- 2005 budget vs actual
- 2006 budget vs actual
- 2007 budget vs 2007 Bridge Year forecast

- 2004 actual vs 2005 actual
- 2005 actual vs 2006 actual
- 2006 actual vs. 2007 Bridge Year forecast
- 2007 Bridge Year forecast vs. 2008 Test Year

2.3.1 Gross Assets – Property Plant and Equipment

(Summary and Continuity statements, including any interest, must be provided)

- Breakdown by function for required statements and analysis
- Detailed breakdown by major plant account for each functionalized plant item for all historic years, Bridge and Test Year. For Test Year each plant item should be accompanied by a written description.
- Average of monthly averages.

Capital Budget - Historic Year, Bridge Year & Test Year

- Policies
 - OPG's capitalization policy and any changes to that policy should be presented as part of the capital budget evidence.
 - Proposed accounting treatment, including the treatment of costs of funds for capital projects that have a project life cycle greater than one year.
- Capital Budget by project
 - Evidence for projects which are over the materiality threshold of \$14 million or 0.13% of net fixed assets should include need, scope, volumes and capital costs. Provide a detailed breakdown of starting dates and in-service dates.
- Variance Analysis
 - A written explanation of variances should be presented where the variance is greater than or equal to 10% of the project budget. Variances explanations should include:
 - 2004 budget vs actual
 - 2005 budget vs actual
 - 2006 budget vs actual
 - 2007 budget vs 2007 Bridge Year forecast

 - 2004 actual vs 2005 actual
 - 2005 actual vs 2006 actual
 - 2006 actual vs. 2007 Bridge Year forecast
 - 2007 Bridge Year forecast vs. 2008 Test Year

This section should include specific information requested in the OPG Report regarding the impact of the Beck tunnel expansion. Data should include capital costs, non-capital costs and firm financial commitments referred to in section 6(2)4 of Regulation 53/05, and additional information on revenue impacts that are the result of the increased output.

2.3.2 Accumulated Depreciation

Summary and Continuity statements must be provided for Historic, Bridge and Test Years by asset account. Continuity statements should be reconcilable to calculated depreciation costs and presented by asset account.

2.3.3 Working Capital

Historic Years, Bridge Year & Test Year (except as otherwise noted) on a single schedule. Analysis should include:

- a) Supplies and Materials
 - Calculation of average of monthly averages (\$)
- b) Prepaid Expenses
 - Calculation of average of monthly averages (\$)
- c) Miscellaneous Accounts Receivable
 - Calculation of average of average of monthly averages (\$)
- d) Other Items of Working Capital (itemized individually)
 - Calculation of average of monthly averages (\$) if applicable

2.4 Exhibit C Operating Revenue

The production and revenue forecast, any normalization methodology, and other sales activities are provided here. The exhibit should include a detailed description of the methodologies and the assumptions used to determine the production forecast. The information presented should include energy revenue from market sales, contract sales, export sales and global adjustment, and Other Revenue (isotope and heavy water sales, nuclear services, consulting and equipment rentals/leasing, etc).

2.4.1 Energy Revenue

- Explanation of causes and assumptions for the production forecast
- Production and energy revenues for all Historic Years, Bridge Year and Test Year.
- All data used to determine the forecast should be presented in MS Excel spreadsheet format.
- Schedule of production showing volumes, revenues, unit revenues for:
 - Historic Years
 - Bridge Year
 - Test Year

Variance Analysis of Energy Produced and Revenues

- 2004 budget vs actual
- 2005 budget vs actual
- 2006 budget vs actual
- 2007 budget vs 2007 Bridge Year forecast

- 2004 actual vs 2005 actual
 - 2005 actual vs 2006 actual
 - 2006 actual vs. 2007 Bridge Year forecast
 - 2007 Bridge Year forecast vs. 2008 Test Year
- All economic assumptions and their sources used in the preparation of the production forecast should be included in this section.

2.4.2 Other Revenues

- Details and breakout of Other Revenue and a description of each of the revenue sources should be provided.
- Variance Analysis of Other Revenues
 - 2004 budget vs actual
 - 2005 budget vs actual
 - 2006 budget vs actual
 - 2007 budget vs 2007 Bridge Year forecast
 - 2004 actual vs 2005 actual
 - 2005 actual vs 2006 actual
 - 2006 actual vs. 2007 Bridge Year forecast
 - 2007 Bridge Year forecast vs. 2008 Test Year
- Detailed explanation of how other revenues are attributed to the prescribed generation assets

2.5 Exhibit D Operating Costs

The operating cost exhibit must include information that summarizes the total cost of service as proposed including:

- 1) Operating & Maintenance and Other Costs,
- 2) PILs or Taxes (including Income, Large Corporation Tax, and gross revenue tax for hydraulic operations)
- 3) Status of Deferral Accounts and Variance Accounts with regard to total O&M expenditures.

2.5.1 Operating & Maintenance and Other Costs

The required statements for each of the components of this section include trend data for Operating costs by major item.

a) Operating & Maintenance

The written direct evidence is to give details of the budgets.

Required Statements for O & M:

- Historic Years
- Bridge Year
- Test Year

The statements should provide:

- Breakdown of each major item on a work basis, with a threshold of 1% of total expenses before taxes or \$20 million.

- Expenses incurred through the purchase of services or products with a threshold of 1% of total expenses before taxes or \$20 million must be documented and justified if they are to be recovered as part of the revenue requirement and the following provided:
 - summary of tendering process/cost approach,
 - identity of each company transacting with OPG,
 - summary of the nature of the activity transacted,
 - annual dollar value, in aggregate, of transactions,
 - description of specific methodology used in determining the price.

- Breakdown of total Full Time Employees (FTE); total Part-Time Employees, Total Salaries, Wages and Benefits, and Salaries, Wages and Benefits charged to O&M:
 - By employee type (i.e. management, analyst, unionized, and non-unionized),
 - Total compensation by group and average level per group,
 - Incentive program, and
 - Status of pension funding and all assumptions used in the analysis. (Employee benefit programs, including pensions, and costs charged to O&M should be detailed for the historic, bridge and test years).

Variance Analysis:

- 2004 budget vs actual
- 2005 budget vs actual
- 2006 budget vs actual
- 2007 budget vs 2007 Bridge Year forecast

- 2004 actual vs 2005 actual
- 2005 actual vs 2006 actual
- 2006 actual vs. 2007 Bridge Year forecast
- 2007 Bridge Year forecast vs. 2008 Test Year

A written explanation is required for operating cost information when there is a variance greater than or equal to of 10% of category expenses before taxes.

b) Depreciation/Amortization/Depletion

- Depreciation Study
- Details of provision for Depreciation, Amortization and Depletion by asset group for Test Year and comparative data for Historic and Bridge Year, including asset amount and rate of depreciation

c) Corporate Cost Allocation

- A Corporate Cost Allocation Study, including information showing the costs incurred at a corporate level, the methodology and assumptions used to allocate these costs to the prescribed and non-prescribed assets and the methodology to allocate these costs to each of the prescribed nuclear and hydraulic businesses.
- Key to both the Hydraulic and Nuclear businesses are their shares of OPG's common corporate costs. A clear explanation of OPG's corporate costs and how those costs are allocated across the businesses is required. This should include a detailed explanation of how costs are allocated to the Hydraulic and Nuclear businesses and a detailed explanation of how costs are allocated between the regulated and non-regulated operations of the Hydraulic business.
- Cost allocation information should include:
 - Details for corporate shared services:
 - type of service (IT, office space, etc.)
 - total annual expense by service,
 - rationale and derivation of cost allocators used for shared costs, for each type of service (square footage/computers/headcount/etc.)

2.5.2 Income Tax, Large Corporation Tax and Ontario Capital Taxes, Gross Revenue Tax

- Detailed Tax calculation (or actual provincial and federal taxes) including derivation of interest and CCA adjustments – Tax information should be provided for Historic, Bridge Year and Test Years.
- Gross Revenue Tax for hydraulic operations; provide details on annual payments either separately or as part of operating expenses for hydraulic operations.
- All reconciling items should have supporting schedules and calculations.

2.6 Exhibit E Deferral and Variance Accounts

Status of Deferral and Variance Accounts

As described in Part 1, Regulation 53/05 contains a number of provisions regarding the establishment of deferral and variance accounts and the recovery of balances in those accounts. OPG should, in this section, include information necessary to enable the Board to deal with these accounts in the manner contemplated by Regulation 53/05, including OPG's proposals regarding the following:

- The end date for entries into the deferral and variance accounts.
- Addressing timing differences between the end date for entries into the deferral and variance accounts and the effective date of the Board's order.
- The number of years over which balances in the deferral and variance accounts should be recovered (subject to the maximum set out for each in Regulation 53/05).
- The interest rate for the nuclear liability deferral account referred to in section 5.2 of Regulation 53/05.

OPG should also identify any deferral or variance accounts that it may wish to have authorization to establish on and after the date of the Board's order.

In general, this exhibit should include:

- A listing and description of all outstanding deferral and variance accounts.
- Separate itemization of opening balance, adjustments, accruals, interest and closing balance.
- The balance and detailed proposal for recovery of existing accounts

2.7 Exhibit F Cost of Capital and Rate of Return

The applicant should ensure that Total Capitalization in the filing (debt and equity) equates to Total Rate Base.

2.7.1 Capital Structure – Amounts & Ratios

The elements of the capital structure required are shown below and must be detailed with the required schedules of: Historic Years, Bridge Year and Test Year:

- Long-Term Debt
- Short-Term/Unfunded Debt (to equate total capitalization with rate base)
- Common Equity

Justification for proposed capital structure is required. Explanation of the following:

- Non-scheduled retirement of debt or preference shares and buy back of common shares
- Long-Term Debt, preference shares and common shares offering
- Since the establishment of the prescribed asset classes, the assumptions and methodology used:
 - to develop prescribed generation asset valuations;
 - to allocate total OPG debt to total prescribed generation assets; and
 - to allocate debt as between the prescribed nuclear and hydraulic generation assets.
- A historic accounting of changes to OPG's total capital structure from OPG's inception in 1998 to the present, including, but not limited to, asset valuations, writedowns, debt issues and retirements.
- All internal or commissioned reports, studies or analysis of how to value OPG's assets and assigned debt by business unit or asset class since OPG's inception in 1998.

2.7.2 Component Costs of Debt

Historic Years, Bridge Year & Test Year

- Calculation of cost of each item for Test Year
- Justification of forecast costs by item including key economic assumptions
- Profit or loss on redemption of debt
- Consensus Forecasts – Latest interest rate forecast based on a selection of forecasters that are common to the utilities, e.g., the major banks and the Bank of Canada.

2.7.3 Calculation of Return on Equity

Justification for the proposed Return on Equity is required.

2.8 Exhibit G Calculation of Revenue Deficiency or Surplus

This exhibit should include the following:

- Determination of Net Income
- Statement of Rate Base
- Indicated Rate of Return
- Requested Rate of Return
- Deficiency or Sufficiency in Revenue
- Gross Deficiency or Sufficiency in Revenues

2.9 Exhibit H Payment Structure

The Payment Structure Exhibit, in addition to the existing schedules, must show the revenue deficiency recovery, a summary of proposed changes to rates/payments, proposed volume and revenue recovery.

2.8.1 Existing Payments Schedule

2.8.2 Proposed Payments Schedule and Analysis

- Proposed Payments and Revenue Adjustments
- Detailed calculations of revenue under current payments and proposed payments.
- Detailed reconciliation of payment revenue and other revenue to total revenue requirement (i.e. breakout volumes, payments and revenues by payment component, etc.)
- Explanation and application of non-cost factors to payment design.

2.8.3 Additional Direction in the OPG Report regarding the following:

- i) Maximization of the efficient use of the prescribed nuclear generation assets.
Data should include: proposed and actual outage schedules for the nuclear units; reasons for each requested outage; duration and impact on output for both the proposed and actual outages; a listing of the unscheduled (forced) outages; the reason, duration and impact on output of each forced outage; and action taken by OPG in response to forced outages, such as corrective action taken to prevent future occurrences.
- ii) The MWh threshold before the market price applies for prescribed hydraulic generation assets.
Data should include a schedule of the hours when total output from each of the prescribed hydraulic generation assets exceeded 1500 MW per hour in three year historic period and the actual level of output for those hours by station, including the Beck Pump Storage facility.
- iii) The “incentive price” mechanism for the Beck Pump Storage facility
Data should include a schedule of Beck Pump Storage kWh consumption and production and HOEP prices for those hours from 2005 to 2007.
- iv) Whether prescribed asset payment amounts should be capped or limited.
Data should include a schedule of when prescribed generation asset prices for nuclear and hydraulic facilities exceeded HOEP, by day and hour on a quarterly basis from the inception of prescribed asset prices to the date of filing; a quarterly summation of these hours and a calculation of the percentage of total hours in the quarter when these prices exceeded HOEP, from 2005 to 2007.