BRUCE GENERATING STATIONS - REVENUES AND COSTS

1.0 PURPOSE
This evidence presents the revenues earned by OPG under the Bruce Lease agreement and associated agreements (collectively “Bruce Lease”) and the related costs incurred by OPG with respect to the Bruce Nuclear Generating Stations.

2.0 OVERVIEW
For the test period, the net amounts of Bruce Lease revenues and costs are forecast to be $39.7M for 2014 and $40.6M for 2015 as shown in Ex. G2-2-1, Table 1. These net amounts are an offset to the nuclear revenue requirement.

Bruce Lease net revenues are largely stable over the 2013-2015 period. The forecast decrease in 2013 relative to 2012 is primarily due to two main factors, both of which were previously discussed in EB-2012-0002. These are the increase in the fair value of the derivative embedded in the lease agreement in 2012 resulting from the extension of the estimated average service life of the Bruce B station for accounting purposes, and the increase in costs associated with accounting for the current approved Ontario Nuclear Funds Agreement (“ONFA”) Reference Plan in 2011-2012.

Section 3 of this exhibit discusses the Bruce Lease. Section 4 considers revenues from the Bruce Lease agreement and associated agreements, including the impact of the derivative embedded in the lease agreement. Section 5 considers the costs associated with operating and maintaining the Bruce facilities. A year-by-year presentation of Bruce Lease revenues and costs for the 2010 - 2015 period is provided in sections 4.5 and 5.10, respectively. Section 6 summarizes the impact of the current approved ONFA Reference Plan (discussed in Ex. C2-1-1, Section 2.0) on the projected 2013 - 2015 Bruce Lease net revenues and 2013 additions to the Bruce Lease Net Revenues Variance Account. The Bruce Lease Net Revenues Variance Account is also discussed in Ex. H1-1-1.

3.0 BRUCE LEASE AGREEMENT 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 agreement sets out the
main terms and conditions of the lease arrangement between OPG and Bruce Power,
including lease payments.

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. These
agreements include the Used Fuel Waste and Cobalt-60 Agreement, the Low and
Intermediate Level Waste Agreement, and the Bruce Site Services Agreement.

As in EB-2012-0002 and EB 2010-0008, the treatment of revenues and costs associated with
the Bruce Lease agreement and associated agreements are based on the OEB’s decision in
EB-2007-0905. The methodology for assigning and allocating revenues and costs to the
Bruce facilities and under the Bruce Lease is also unchanged from that presented in EB-
2010-0008 and reflected in EB-2012-0002. In 2010, Black & Veatch Corporation Inc. ("Black
& Veatch") reviewed this allocation methodology and found it appropriate. The methodology
was initially accepted by the OEB in EB-2010-0008, and was subsequently applied in EB-
2012-0002 through the disposition of the balance in the Bruce Lease Net Revenues Variance
Account.

4.0 BRUCE LEASE REVENUES

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.

The forecast Bruce Lease revenues are $274.6M for 2014 and $281.2M for 2015.1 Actual
Bruce Lease revenues earned by OPG during the 2010 - 2012 period and forecast to be
earned during the 2013 - 2015 period are summarized in Ex. G2-2-1 Table 2.

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1 As discussed in Section 4.1.2, there is no revenue impact forecast in 2013-2015 associated with the derivative
embedded in the Bruce lease agreement.
As discussed in EB-2012-0002 and EB-2010-0008, OPG derives revenues from the Bruce Lease agreement and associated agreements described in Sections 4.1 to 4.4 below. Revenues pursuant to these agreements are subject to the Bruce Lease Net Revenues Variance Account.

4.1 Bruce Lease Agreement Revenues

Revenues from the Bruce Lease agreement consist of: a fixed amount of amortization of initial deferred rent of $11.7M per year\(^2\), base rent discussed in Section 4.1.1, and supplemental rent discussed in Section 4.1.2. These revenues are presented in Ex. G2-2-1 Table 2.

4.1.1 Base Rent Revenue

The Bruce Lease contains a base rent amount that is fixed for each year of the lease. As per the OEB’s direction in EB-2007-0905, OPG continues to determine lease revenue on a straight-line basis, as this is in accordance with generally accepted accounting principles (“GAAP”) 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, determined in accordance with GAAP for non-regulated businesses, by the number of years in the lease term. As noted in EB-2012-0002 and EB-2010-0008, in late-2008 the expected lease term for lease accounting purposes was extended to December 2036.

4.1.2 Supplemental Rent Revenue, Including Bruce Derivative

In addition to the pre-determined amount of base rent, Bruce Power also pays a variable amount of supplemental rent. The supplemental rate is currently $31.7M per unit per year (in 2013 dollars) for the non-refurbished Bruce units and is applied on the basis of the number of generating units operational in a given calendar year. In accordance with the lease agreement, when certain Bruce A units, including Units 1 and 2, are refurbished and

\(^2\) EB-2007-0905, Ex G2-2-1, Page 2
declared in-service (i.e., the unit begins commercial operation), the supplemental rent for each refurbished unit is reduced to approximately $6.9M per unit per year (in 2013 dollars).

The applicable full amount of supplemental rent is due to OPG regardless of how much a unit operates during a given year (i.e., as long as the unit operates at any time during the year), except in a year in which a refurbished Bruce A unit is returned to service. In the year the unit resumes commercial operation after being returned to service, the supplemental rent for a refurbished unit is pro-rated. The supplemental rent payments are escalated annually by the Consumer Price Index (Ontario) (“CPI”).

As discussed in EB-2012-0002 and EB-2010-0008, 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 the Bruce units. Supplemental rent is also dependent on the Hourly Ontario Energy Price (“HOEP”). As discussed in EB-2012-0002 and EB-2010-0008, a provision in the Bruce Lease agreement requires a partial rebate by OPG to Bruce Power of the supplemental rent payments for certain Bruce units in a calendar year where the annual arithmetic average of the HOEP (“Average HOEP”) falls below $30/MWh. This rebate provision applies to the Bruce units (currently all Bruce B units) that are not subject to the Bruce Power Refurbishment Implementation Agreement between Bruce Power and the Ontario Power Authority and that are operational at any time during the calendar year.

The partial supplemental rent rebate provision gives rise to a conditional reduction to supplemental rent payments in the future, embedded in the terms of the Bruce Lease agreement, that must be accounted for as a derivative in accordance with GAAP (“Bruce Derivative”). The Bruce Derivative is measured at fair value for financial accounting purposes, and changes in its fair value are recognized as adjustments to revenue. 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.
The impacts of the Bruce Derivative on Bruce Lease net revenues (i.e., changes in the fair value of the derivative and associated income tax impacts on Bruce Lease net revenues calculated in accordance with GAAP for unregulated entities) for the 2010 - 2015 period are presented separately in Ex. G2-2-1 Tables 1-3 and Tables 5-6. As shown in those tables, there is no financial impact during 2013 - 2015 as OPG has not forecast changes in the fair value of the Bruce Derivative for that period. The forecast Bruce Lease net revenues for the bridge and test years and, therefore, the revenue requirement for the nuclear base payment amounts are not affected. As in the past, the actual financial impact during 2013 - 2015 of the Bruce Derivative will be recorded in the Bruce Lease Net Revenues Variance Account. OPG continues to calculate the fair value of the Bruce Derivative using the same methodology and valuation model as presented in EB-2012-0002.

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 the 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. G2-2-1 Table 2. Revenues for cobalt-60 storage and disposal services under this agreement are recorded as the services are provided.

4.3 Low and Intermediate Level Waste Agreement Revenues

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

As noted in EB-2012-0002 and EB-2010-0008, OPG has been projecting revenues under the
L&ILW Agreement based on information received from Bruce Power regarding forecasted L&ILW volumes. OPG is required to maintain the capacity to accept all of the L&ILW received from Bruce Power. The impact of the agreement on revenues from Bruce Power is set out in Ex. G2-2-1 Table 2.

As discussed in EB-2010-0008, OPG and Bruce Power are also parties to a Supplemental Agreement to the L&ILW Agreement (“Supplemental Agreement”), which requires OPG to accept and manage L&ILW generated by Bruce Power during the refurbishment of Bruce A Units 1 and 2. By the end of 2009, OPG had received all such waste, as well as the full amount of payments from Bruce Power in accordance with the Supplemental Agreement. As such, there are no actual or forecasted revenue impacts of the Supplemental Agreement during 2010 - 2015.

In 2010, Bruce Power exercised the option under the agreement to retrieve the low level radioactive waste (i.e., steam generators) previously received by OPG pursuant to the Supplemental Agreement. However, no waste has been retrieved to date and, as such, in accordance with the Supplemental Agreement, OPG has not refunded any amounts to Bruce Power, and no amounts related to the potential retrieval have been included in the bridge or test period.

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 services revenues are set out in Ex. G2-2-1 Table 2 and the related costs are discussed in Section 5.0 below.

4.5 Comparison of Revenues
A comparison of revenues from the Bruce Lease for the 2010 to 2015 period is provided in Ex. G2-2-1 Table 3.
The fluctuations in services revenue over the 2010 - 2015 period reflect the variability in the revenues for L&ILW management services, which, in turn, results primarily from differences in volumes of waste received or forecast to be received from Bruce Power. Mainly for the same reason, actual services revenue was below budget in 2010, exceeded the OEB-approved amount in 2011, and was lower than the OEB-approved amount in 2012.

The volumes of waste received by OPG are affected by the operations of the Bruce units, including the impact of waste volume reduction initiatives implemented by Bruce Power. As noted in Section 4.3, OPG is required to maintain the capacity to accept all of the L&ILW generated by Bruce Power and, therefore, forecasts related revenues based on forecasted waste volume information received from Bruce Power. Actual volumes received are not under OPG’s control.

Base rent revenue is stable at $38.7M over the 2011 - 2015 period, with a small decrease of $2.2M, as compared to 2010, due to the impact of adopting USGAAP, as described in Ex. A2-1-1, Section 4.0 and EB-2012-0002 Ex. A3-1-2, Section 4.2.2. The adoption of USGAAP also accounts for the variance between the actual and OEB-approved base rent revenue in 2011 and 2012.

Supplemental rent revenue (excluding the impact of changes in the value of the Bruce Derivative presented separately at lines 10 and 21 at Ex. G2-2-1 Table 3) increases over the 2010 - 2015 period from $179.4M in 2010 to a forecast of $212.0M in 2015. The upward trend reflects annual CPI-based increases as per the terms of the Bruce Lease agreement discussed in section 4.1.2 above, as well as the beginning of the commercial operation of the refurbished Bruce A Units 1 and 2 in Q4 2012. OPG’s supplemental rent revenue for these units in 2012 represents a pro-ration of the full annual amount which OPG started receiving in 2013.

The actual supplemental rent revenue (excluding the impact of changes in the value of the Bruce Derivative) was substantially on budget in 2010 and consistent with the OEB-approved amount in 2011. In 2012, the actual revenue was slightly lower than the OEB-approved
amount primarily due to assumed return-to-service dates for Bruce A Units 1 and 2 that were
earlier than the actual dates.

The 2011 and 2012 OEB-approved amounts and the 2010 budget did not include a forecast
financial impact associated with the Bruce Derivative. The impact on actual supplemental
rent revenue of changes in the fair value of the Bruce Derivative in 2010 and 2011 primarily
reflects net increases in the probability-weighted average expectations of future Average
HOEP falling below $30/MWh. As discussed in EB-2012-0002, the increase in the fair value
of the derivative of $283.5M in 2012 is primarily due to the $248.7M increase resulting from
the extension of the estimated average service life of the Bruce B station for accounting
purposes. The remainder of the change in the Bruce Derivative value in 2012 is mainly due
to the net increase in the probability-weighted average expectations of future Average HOEP
falling below $30/MWh.\(^3\)

5.0 BRUCE LEASE COSTS

The Bruce Lease costs forecast to be incurred by OPG are $235.0M for 2014 and $240.6M
for 2015. Actual Bruce Lease costs incurred by OPG for the 2010 - 2012 period and forecast
to be incurred for the 2013-2015 period are summarized in Ex. G2-2-1 Table 1 and are
further detailed in Ex. G2-2-1 Table 5. These costs continue to be subject to the Bruce Lease
Net Revenues Variance Account. The presentation of the costs incurred by OPG with
respect to the Bruce Nuclear Generating Stations used in this Application is consistent with
that in EB-2007-0905, EB-2010-0008 and EB-2012-0002. Under this presentation, certain
relatively minor costs incurred by OPG with respect to the Bruce stations (including those
incurred in providing services under the Bruce Site Services Agreement) continue to be
reflected in other aspects of the nuclear revenue requirement.

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

\(^3\) The specific journal entries summarizing the changes in the value of the Bruce Derivative liability in 2011 and
2012 can be found in EB-2012-0002 L-1-1 Staff-09 and in EB-2012-0002 Ex. H1-1-2, Attachment 6, respectively.
with the OEB’s decision in EB-2007-0905. This methodology was accepted by the OEB in EB-2010-0008 and was subsequently applied in EB-2012-0002 through the disposition of the balance in the Bruce Lease Net Revenues Variance Account. This same methodology is used in this Application.

5.1 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”) shown in Ex. C2-1-2 Table 3. OPG applied the same methodology as in EB-2012-0002 and EB-2010-0008, also summarized in Ex. F4-1-1 in this Application, to derive the depreciation expense for 2010 to 2015.

The depreciation forecast for the 2013-2015 period is based on the closing 2012 Bruce fixed asset values. The Bruce fixed asset values for the 2010 - 2015 period are presented in Ex. G2-2-1 Table 4. No additions to the Bruce fixed assets are anticipated during the 2013 - 2015 period. Fixed asset additions to the Bruce stations, with the exception of those resulting from changes in OPG’s nuclear asset retirement obligation (“ARO”), are not recorded in OPG’s accounting records as these additions are the property of Bruce Power.

5.2 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, as described in Ex. F4-2-1, Section 6.0.

5.3 Accretion
The accretion expense represents the growth in the ARO due to the passage of time. The forecast accretion expense for 2013-2015 is derived using the same methodology as in EB-2012-0002 and EB-2010-0008. The forecast expense is derived by reference to the December 31, 2012 ARO balance from OPG’s 2012 audited consolidated financial statements, including the ARO increases recorded at December 31, 2011 and December 31,
2012 discussed in Ex. C2-1-2, and the forecast year-end balances in subsequent years. As 
at December 31, 2012, the total portion of OPG’s ARO related to the Bruce assets was 
$7,125.5M, as shown in Ex. C2-1-2 Table 3, and consisted of five different tranches 
representing the initial ARO and each of the four subsequent changes. As shown in EB-2012 
- 0002, a different discount/accretion rate is used for each tranche. OPG maintains a station-
level continuity of ARO consistent with the ONFA Reference Plan cost estimates, which are 
either developed directly at the station-specific level or are allocated to the stations based on 
projections of lifecycle waste volumes. This is the same methodology as was applied in EB-
2012 - 0002 and EB-2010-0008. The continuity schedule for the Bruce ARO is presented in 
Ex. C2-1-2 Table 3.

The forecast accretion expense for the 2013 - 2015 period is derived by applying the 
appropriate accretion rates to the corresponding prior year ARO ending balances for each 
tranche. The forecast accretion expense also takes into account the expected changes in the 
ARO due to additional used fuel storage and disposal costs and L&ILW management 
variable expenses (discussed below) and expenditures charged against the ARO.

5.4 Earnings on Nuclear Segregated Funds

OPG includes earnings resulting from the investments in the nuclear segregated funds 
pertaining to the Bruce stations as a negative cost associated with the stations. The forecast 
fund earnings from 2013 to 2015 are determined using the same methodology as that 
applied in EB-2012-0002 and EB-2010-0008. The forecast is based on the application of a 
rate of 5.15 per cent per annum (the long-term target rate of return as per the ONFA) to the 
actual closing balance of the funds attributable to the Bruce stations, as derived from OPG’s 
2012 audited consolidated financial statements, and the forecast closing balances in 
subsequent years. The forecast of the earnings also takes into account the expected 
contributions to the segregated funds during each year pursuant to the current approved 
segregated fund contribution schedule, as well as forecast disbursements from the funds 
during each year. The balance of the nuclear segregated funds attributable to the Bruce 
assets as at December 31, 2012 was $6,400.1M, as shown in Ex. C2-1-2 Table 3.

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4 EB-2012-0002 Ex. M1-1, Attachment 3, Table 1a, note 1#
The methodology for the attribution of the segregated funds to the Bruce stations remains the same as that applied in EB-2012-0002 and EB-2010-0008. The actual/forecast balance of the funds at the end of a given year is attributed to each of OPG's nuclear stations, including Bruce stations, using a rolling continuity schedule. The schedule is based on the distribution of the opening balance of the funds and ongoing contributions to the stations pursuant to the ONFA. Disbursements from the funds continue to be allocated to OPG's nuclear stations using the methodology prescribed by the ONFA, based on the cost estimates in accordance with the current approved ONFA Reference Plan. The continuity schedule for the Bruce portion of the segregated funds is presented in Ex. C2-1-2 Table 3.

5.5 Used Fuel Storage and Disposal Costs
OPG incurs variable costs associated with the storage and disposal 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. OPG's costs associated with the cobalt-60 services provided to Bruce Power are presented as part of the costs associated with the nuclear non-energy businesses in Ex. G2-1-1.

5.6 Waste Management Variable Expenses and Facilities Removal Costs
The variable costs associated with managing the low and intermediate level radioactive nuclear waste produced by Bruce Power are included as a period expense related to the Bruce assets. Additionally, facilities removal costs incurred by OPG to meet its obligations under the Bruce Lease are also included in this category of expenses.

5.7 Interest
Interest related to the Bruce assets represents an allocation of OPG's actual/forecast corporate-wide accounting interest expense 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 fixed assets leased to Bruce Power represents of the total average net book value of OPG's in-service fixed assets, including intangible assets and
excluding in-service assets financed by project-specific debt. This method is unchanged from
that presented in EB-2012-0002 and EB-2010-0008.

5.8 Current Income Taxes
OPG follows the methodology approved by the OEB in EB-2010-0008 in calculating current
income taxes for the Bruce assets for the historical, bridge and test periods. Current income
taxes for the 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 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 GAAP, as applicable, for items with different accounting and
tax treatment. Earnings before tax for each year are determined as the difference between
Bruce Lease revenues and Bruce Lease costs. The main adjustments for 2010 - 2015 are
the same as described in EB-2012-0002 and EB-2010-0008. The derivation of
actual/forecast taxable income and current tax expense for the 2010 - 2012 and 2013 - 2015
periods is shown in Ex. G2-2-1 Tables 7 and 8, respectively. As in EB-2010-0008, tax losses
associated with the Bruce assets on a stand-alone basis are carried forward from prior
periods commencing on April 1, 2008, as shown in Ex. G2-2-1 Table 9. These are applied to
reduce taxable income for the Bruce assets in 2010 to 2012 at Ex. G2-2-1 Table 7, line 18
and for 2013 at Ex. G2-2-1 Table 8, line 18.

5.9 Deferred Income Taxes\(^5\)
OPG follows the methodology approved by the OEB in EB-2010-0008 in calculating deferred
income taxes for the Bruce assets for the historical, bridge and test periods. The deferred
income tax expense related to the Bruce assets is determined in accordance with financial
accounting requirements for unregulated entities. The actual/forecast deferred income taxes
related to the Bruce assets for the 2010 - 2012 and 2013 - 2015 periods are calculated on a

\(^5\) The USGAAP term “deferred income taxes” is equivalent to the previously used Canadian GAAP term “future income taxes”.
stand-alone basis using the actual/forecast Bruce Lease revenues and Bruce Lease costs as shown in Ex. G2-2-1 Tables 7 and 8, respectively.

Generally, deferred 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 deferred 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 deferred income tax liability is reversed through a reduction to the deferred 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.

Ex. G2-2-1, Tables 7 and 8 separately show the derivation of current and deferred income tax impacts associated with the Bruce Derivative, as calculated in accordance with GAAP for unregulated entities, for the 2010 - 2015 period. As discussed in Section 4.1.2, OPG has not forecast changes in the value of the Bruce Derivative during 2013 - 2015; therefore, there is no related net income tax impact for that period. Similarly, as the 2011 and 2012 OEB-approved amounts and the 2010 budget did not include a forecast financial impact resulting from the Bruce Derivative, there were no related forecast net income tax amounts. The actual impacts of the derivative for those years, including the income tax impacts, are reflected in the Bruce Lease Net Revenues Variance Account.

5.10 Comparison of Bruce Costs
A comparison of Bruce Lease costs for 2010-2015 is set out in Ex. G2-2-1 Table 6.

5.10.1 Depreciation
The depreciation expense was relatively stable at $33.2M in 2011 compared to 2010,
followed by an increase to $78.9M in 2012 and a forecast increase to $106.8M per year during 2013 - 2015, as shown in Ex. G2-2-1 Table 4. These year-over-year changes are driven primarily by the increases of $495.1M and $725.6M in Bruce ARC recorded at the end of 2011 and 2012, respectively, as shown in Ex. G2-2-1 Table 4 and Ex. C2-1-2 Table 3. These increases reflect the accounting implementation of the current approved ONFA Reference Plan.

The projected increase in the expense in 2012 as compared to 2011 reflects approximately $50M as a result of the December 31, 2011 increase in Bruce ARC. This increase was partly offset by a reduction in expense primarily attributable to extensions of the estimated average service life of the Bruce A station, for accounting purposes.

The projected increase of $28M in 2013 over 2012 reflects the net impact of the additional expense as a result of the December 31, 2012 increase in Bruce ARC partly offset by a reduction in expense primarily attributable to extensions, effective December 31, 2012, of the estimated average service lives of the Bruce A station to December 31, 2048 and the Bruce B station to December 31, 2019, for accounting purposes. As discussed in Ex. F4-1-1, Section 3.3, the life extensions reflected OPG’s high confidence that pressure tubes can operate beyond the originally assumed nominal life.

Depreciation expense was largely on budget in 2010 and consistent with the OEB-approved amount in 2011. The actual expense in 2012 was $44.4M higher than the OEB-approved amount. As discussed in EB-2012-0002, the higher 2012 expense is attributable to the December 31, 2011 increase in Bruce ARC noted above, partially offset by the impact of the life extensions of the Bruce A station which were not assumed in the EB-2010-0008 forecast.

5.10.2 Property Tax

The property tax expense fluctuates over the 2010 - 2015 period, ranging from $11.4M in 2012 to a forecast of $14.2M in 2015, as a result of differences in municipal property tax rates. As noted in EB-2012-0002, differences in municipal property tax rates also account for the variances between the actual and OEB-approved amounts in 2011 and 2012. The
expense was largely on budget in 2010.

5.10.3 Accretion

Accretion expense of $296.6M in 2011 was $13.5M higher than in 2010 mainly due to the growth in the ARO as a result of the passage of time and the accrual of additional used fuel and waste management variable costs, net of the impact of the reduction to the liability as a result of cash expenditures during the year. The 2010 expense was largely on budget while the 2011 actual expense was consistent with the OEB-approved amount.

The increase in the Bruce ARO at December 31, 2011 and the increase in the Bruce ARO at December 31, 2012 are the main drivers for the increase of $31.2M in the accretion expense to $327.8M in 2012 and a further forecast increase of $40.0M in 2013 to $367.8M. As discussed in EB-2012-0002, the increase in the Bruce ARO at December 31, 2011 is also the predominant reason for the variance between the actual and OEB-approved expense amount for 2012. The adjustments to the ARO recorded in 2011 and 2012 reflect the accounting implementation of the current approved ONFA Reference Plan and are discussed in Ex. C2-1-1.

In 2014 and 2015, the accretion expense is forecast to increase by in the order of $15M per year to $382.9M and $397.3M, respectively, primarily as a result of the normal growth in the liability due to the passage of time and the accrual of additional used fuel and waste management variable costs, net of the impact of expenditures forecast to be charged against the liability.

5.10.4 Earnings on Nuclear Segregated Funds

The fluctuations and variances in the Bruce portion of the nuclear segregated fund earnings over the 2010 - 2012 period are predominantly a function of the volatility in capital market conditions, which significantly affected the performance of the Decommissioning Fund, and changes in the CPI, which impacted 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 2.23M used fuel bundles, as discussed in EB-2010-0008 Ex. C2-1-1, Section 3.2.

Specifically, the earnings in 2010 were above budget mainly due to higher earnings from the Used Fuel Fund as a result of a higher CPI, partially offset by lower earnings on the Decommissioning Fund primarily due to lower returns from the global financial markets. As noted in EB-2012-0002, the 2011 earnings were below the OEB-approved amount and significantly lower than the actual earnings in both 2010 and 2012 mainly as a result of the impact of a decline in global financial markets during the year on the value of the Decommissioning Fund. The earnings in 2012 were higher than the OEB-approved amount primarily due to the favourable impact of the performance of global financial markets on the value of the Decommissioning Fund.

During the 2013 - 2015 period, both funds are forecast to grow at the ONFA long-term target rate of return of 5.15 per cent per annum, with the net impact of the resulting higher fund asset base, contributions pursuant to the current approved segregated fund contribution schedule and forecast disbursements giving rise to a higher amount of earnings each year.

5.10.5 Used Fuel Storage and Disposal Costs

The costs were largely on budget in 2010. The main driver for the 2011 actual costs of $27.0M being higher than those in 2010 and the 2011 OEB-approved amount was a higher volume of fuel bundles associated with the Bruce units, as noted in EB-2012-0002. 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.

The used fuel variable costs increased in 2012 to $44.5M, as compared to 2011, mainly as a result of higher dollar per bundle variable cost rates for 2012, reflecting the impact of accounting for the current approved ONFA Reference Plan discussed in Ex. C2-1-1. As discussed in EB-2012-0002, this is also the main cause for the 2012 actual costs being higher than the OEB-approved amount.
The costs are forecast to increase in 2013 by $7.1M over 2012 costs mainly due to the impact of the full-year generation at Bruce A Units 1 and 2, which were returned to commercial operation in Q4 2012. In 2014 and 2015, the costs are expected to increase by relatively small amounts at three to five per cent each year, mainly due to increases in the variable cost rates, which are expressed in present value dollars, due to the passage of time.

5.10.6 Waste Management Variable Expenses and Facilities Removal Costs

This category of expenses was higher in 2010 as compared to budget and lower compared to the actual expenses in 2011 primarily because of the facilities removal costs incurred in 2010 in connection with OPG’s contractual obligation under the Bruce Lease to demolish and remove certain buildings and facilities that reside on the land leased to Bruce Power. The expenses were largely on budget in 2011, with higher costs over the 2012 - 2015 period, relative to 2011, reflecting higher L&ILW variable cost rates reflecting the impact of accounting for the current approved ONFA Reference Plan starting in 2012. The higher cost rates, as well as the impact of costs recognized in 2012 upon the implementation of new CNSC requirements for certain facilities (refer to Ex. C2-1-1 Table 3, Note 4), resulted in the 2012 actual expenses being higher than the OEB-approved amount. The forecast increase in the expenses in 2015 over 2014 is primarily attributable to higher assumed waste volumes in 2015.

5.10.7 Interest

The interest expense associated with the Bruce assets was generally on budget in 2010 and 2011. The decrease in the expense in 2011 relative to 2010 was mainly caused by higher project-specific debt in proportion to OPG’s total debt, as well as a lower allocation factor.

Interest expense increased in 2012 relative to 2011 primarily as a result of a higher allocation factor. The increase in the allocation factor results from the increase in the net book value of the Bruce fixed assets relative to OPG’s total fixed assets, following the adjustments to ARC at the end of 2011. The higher allocation factor also contributed to the variance between the actual and OEB-approved amounts for 2012. Additionally, the EB-2010-0008 approved forecast for 2012 included a reduction in the amount of interest attributed to Bruce assets.
Following a small decrease in 2013, interest expense is forecast to be relatively stable during the test period.

5.10.8 Current Income Taxes – Non-Derivative Portion

As reflected in the budget for 2010 and in the EB-2010-0008 forecast for 2011, the non-derivative portion of the actual current income tax expense for the Bruce assets is nil in 2010 and 2011, as the unutilized tax losses carried forward from prior years were sufficient to fully offset the taxable income in 2010 and 2011. The non-derivative portion of actual current income taxes for 2012 is largely consistent with the OEB-approved amount.

OPG is forecasting a current income tax expense, before the impact of the Bruce Derivative, of $28.5M in 2013, $57.1M in 2014 and $59.1M 2015. The 2013 forecast expense is higher than the 2012 expense, as carried forward tax losses reduced taxable income (before the impact of the Bruce Derivative) in 2012. The current income tax expense is forecast to be higher in 2014 and 2015, as compared to 2013, mainly due to lower contributions to the nuclear segregated funds in 2014 and 2015, as per the approved segregated fund contribution schedule.

5.10.9 Deferred Income Taxes – Non-Derivative Portion

The non-derivative portion of the actual deferred income tax expense for 2010 is higher than the 2011 actual expense and the 2010 budget mainly as a result of higher segregated fund earnings during 2010. Lower segregated fund earnings and lower cash expenditures for nuclear used fuel, waste management and decommissioning in 2011 were the main driver for the expense being lower than the OEB-approved amount for that year.

The non-derivative portion of the 2012 actual deferred income tax expense was lower than the 2011 expense and the 2012 OEB-approved amount. This primarily reflects the net impact on deferred income taxes of a lower amount of carried forward tax losses actually utilized in 2012 and higher actual deductible non-derivative net temporary differences in 2012.
OPG is forecasting a deferred income tax credit of approximately $19.1M in 2013, $48.6M in 2014 and $50.3M in 2015. The forecast deferred income tax credit in 2013 as compared to the 2012 deferred tax expense is due mainly to lower deductible net temporary differences in 2013. Deferred income taxes are forecast to decrease in 2014 and 2015, as compared to 2013, primarily as a result of lower segregated fund contributions in 2014 and 2015.

5.10.10 Income Taxes – Derivative Portion

The derivative portion of deferred income taxes fluctuates over the 2010 - 2015 period primarily as a result of changes in the fair value of the Bruce Derivative and the incidence of the rebate being payable to Bruce Power for the year. The rebate becoming payable also gives rise to the derivative portion of the current income tax expense.

6.0 PROJECTED IMPACT OF THE CURRENT APPROVED ONFA REFERENCE PLAN

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.”

In EB-2007-0905, the OEB determined that the cost impact of any changes in the nuclear decommissioning and waste management 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.

The current approved ONFA Reference Plan was effective as of January 1, 2012. Associated impacts on Bruce Lease net revenues for 2012 were in the areas of depreciation, accretion expense, variable expenses and income taxes, as discussed in EB-2012-0002 Ex. H2-1-1 and reflected in the approved December 31, 2012 balance of the Bruce Lease Net Revenue Variance Account. The projected impacts for 2013 - 2015 are similarly determined and reflect the actual 2011 and 2012 increases to the Bruce ARO and ARC and related changes in the used fuel and L&ILW variable cost rates associated with the accounting implementation of 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."
the current approved ONFA Reference Plan. As detailed below, the projected impacts on
Bruce Lease net revenues are estimated at $110M for 2013, $112M for 2014 and $117M for
2015. The 2013 impact is being recorded in the Bruce Lease Net Revenues Variance
Account. The accounting for the current approved ONFA Reference Plan is also discussed
in Ex. C2-1-1 and the associated estimated impacts for 2014 - 2015 are also detailed in Ex.
C2-1-1 Table 5.

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Depreciation Expense</td>
<td>74</td>
<td>74</td>
<td>74</td>
</tr>
<tr>
<td>Increased Accretion Expense</td>
<td>44</td>
<td>45</td>
<td>47</td>
</tr>
<tr>
<td>Lower / (Higher) Segregated Fund Earnings</td>
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<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Increased Used Fuel and Waste Management Expenses</td>
<td>28</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>(Lower) / Higher Income Tax Expense(^7)</td>
<td>(37)</td>
<td>(38)</td>
<td>(39)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110</strong></td>
<td><strong>112</strong></td>
<td><strong>117</strong></td>
</tr>
</tbody>
</table>

\(^7\) The income tax impact relates to changes in temporary differences due to higher depreciation, accretion and variable expenses and lower segregated fund earnings, which are not deductible/taxable for income tax purposes. The impact is computed by applying the tax rate of 25 per cent to the increase in these expenses.