1  ESTABLISHMENT OF NEW AND/OR CONTINUATION OF EXISTING
2  DEFERRAL AND VARIANCE ACCOUNTS
3
4  1.0 PURPOSE
5  This evidence provides a summary of OPG’s proposals to establish and/or continue existing
deferral and variance accounts for the test period.
6
7  2.0 OVERVIEW
8  OPG’s deferral and variance account proposals are presented under the following two
categories:
9  • The continuation of certain deferral and variance accounts as provided for in O. Reg.
   53/05 (“Current Accounts”).
10  • New Accounts.
11
12  A third category of accounts (“Potential Future Accounts”) is also presented. This category
13  includes accounts which may be included in OPG’s update to this application or in a future
14  application.
15
16  OPG proposes to dispose of the December 31, 2007 balances in its existing deferral and
17  variance accounts as described in Ex. J1-T2-S1. Amounts recovered through interim
18  payment amounts will be recorded on a monthly basis up to the effective date of the OEB’s
19  first payment order. Interest will be determined on the monthly opening (unrecovered)
balances in these accounts as described in Ex. J1-T1-S1.
20
21  OPG proposes to record interest on both existing and new deferral and variance accounts
22  commencing at the effective date of the OEB’s first payment order. Interest will be recorded
23  as simple interest on the monthly opening balances of the accounts, compounded annually
24  until the later of December 31, 2009 or the effective date of the OEB’s next payment order in
25  respect of OPG’s prescribed assets.
OPG proposes that the interest rate applicable to all deferral and variance account balances (with the exception of the Pickering A Return to Service ("PARTS") Deferral Account discussed below) shall be the forecast interest rate applied to OPG’s other long-term debt provision as discussed in Ex. C1-T2-S2. OPG’s current average age to maturity of its long-term debt portfolio is just over four and a half years. Therefore the use of a long-term debt rate for these accounts is consistent with the manner in which OPG has used long-term financing arrangements.

The PARTS Deferral Account balance is to be recovered over a period not to exceed 15 years as required by O. Reg. 53/05. OPG is of the view that this asset is similar to other long-term assets reflected in rate base. Therefore OPG proposes to use the weighted average cost of capital approved by the OEB as the carrying charge for this account.

3.0 CURRENT ACCOUNTS

The Company requests approval to continue the following six deferral and variance accounts:

- PARTS Deferral Account as per subsection 5 (4) of the Regulation.
- Nuclear Liability and Deferral Account as per subsection 5.2 (1) of the Regulation.
- Interim Variance Account - Water Conditions Variance Sub-Account as per subsection 5.1 (a) of the Regulation.
- Interim Variance Account - Ancillary Services Variance Sub-Account as per subsection 5.1 (c) of the Regulation.
- Nuclear Development Variance Account as per subsection 5.4 (1) of the Regulation.
- Capacity Refurbishment Variance Account to record costs as per subsection 6 (2) paragraph 4 of the Regulation.

The need for these accounts and their operation is described in further detail in the remainder of this section.

3.1 PARTS Deferral Account
OPG shall continue the PARTS Deferral Account established pursuant to subsection 5 (4) of the Regulation.

Going forward, the only entries in the PARTS Deferral Account will be for interest and the amounts recovered. However, continuation of this account is required to satisfy the provision in the Regulation that requires the OEB to ensure OPG recovers its costs associated with the PARTS project.

Simple interest is being calculated on the monthly opening balance of the account at an annual rate of six percent applied to the monthly opening balance in the account, compounded annually, in accordance with the Regulation. OPG proposes to apply the weighted average cost of capital approved by the OEB as the carrying charge for the PARTS Deferral Account commencing on the effective date of the OEB’s first payment order. OPG’s proposed recovery period of 15 years is consistent with the recovery period for OPG’s PARTS capital costs as reflected in OPG’s depreciation expense. Therefore, the financing of the related non-capital costs should reflect a consistent approach (i.e., the weighted average cost of capital).

3.2 Nuclear Liability Deferral Account

OPG shall establish a Nuclear Liability Deferral Account in accordance with section 5.2 of the Regulation. This account will ensure that OPG recovers its costs associated with any future changes in OPG’s obligations to decommission its nuclear stations and to manage nuclear waste and used fuel (collectively, the “nuclear liabilities”). OPG’s nuclear obligations, the factors used to determine the cost to address these obligations, and the potential for such factors to change over time is briefly highlighted below. OPG’s nuclear liabilities are more fully described in Exhibit H1.

OPG established a Nuclear Liability Deferral Account (transition) in accordance with section 5.1 of the Regulation. As provided in the Regulation, this account records the revenue requirement impact of any change in OPG’s nuclear decommissioning liability arising from an
approved reference plan approved after April 1, 2005 up to the effective date of the OEB’s first payment order, as reflected in the audited financial statements approved by the Board of Directors of OPG. Any balance in this account will be transferred to the Nuclear Liability Deferral Account established in accordance with section 5.2 of the Regulation on the effective date of the OEB’s first payment order, and the Nuclear Liability Deferral Account (transition) will be discontinued.

The Regulation defines nuclear decommissioning liability as the liability of OPG for decommissioning its nuclear generation facilities and the management of its nuclear waste and used fuel. OPG’s current obligations relate to the Pickering and Darlington Generating Stations that are operated by OPG, as well as the Bruce A and B Generating Stations that are leased by OPG to Bruce Power.

3.3 Hydroelectric Water Conditions Variance Account

OPG proposes to continue the variance account for water conditions established pursuant to subsection 5 (1) (a) of the Regulation, which directs OPG to establish a variance account to capture the impact of differences in hydroelectric electricity production due to differences between forecast and actual water conditions for its regulated hydroelectric facilities.

Forecast water conditions are subject to a high degree of forecast risk/error due to contributing factors that are beyond OPG’s ability to manage or control, such as weather. The actual water flow is volatile as illustrated in the following chart which provides Niagara River flows at a point just downstream of the Sir Adam Beck plants:
Variances from forecast are highly likely based on historical experience. For example, OPG has recorded variances of ($3.3M) in 2005 and $6.7M in 2007, a range of about $10M within the last three years. Without this variance account, ratepayers would be exposed to the risk of OPG earning additional revenues and OPG would be exposed to the risk of foregone revenues due to favourable or unfavourable deviations from forecasted water conditions in the test period. These outcomes could unduly penalize or benefit one party at the benefit or expense of the other. This variance account ensures that such effects are eliminated.
A variance account to address differences between forecast and actual water conditions was accepted by the Province in respect of OPG’s interim payment amounts.

3.4 Ancillary Services Variance Account

OPG proposes to continue the Ancillary Services Variance Account established pursuant to subsection 5 (1) (c) of the Regulation, which directs OPG to establish a variance account to capture the impact of changes to revenues for ancillary services from the prescribed generation facilities.

For nuclear business operations, ancillary revenues are earned through voltage control/reactive support as discussed in Ex. G2-T1-S1. OPG’s forecast earnings from these services are included as an offset to its nuclear revenue requirement.

For regulated hydroelectric operations, ancillary revenues are earned from the regulated stations through the offering of available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start capability, and automatic generation control as discussed in Ex. G1-T1-S1. OPG’s forecast earnings from these services are included as an offset to its regulated hydroelectric revenue requirement.

The Ancillary Services Variance Account is proposed as forecast variances are highly likely and the underlying circumstances are beyond OPG’s ability to manage or control. OPG has a limited ability to influence the revenues from these services as they are a function of changing demand and system/grid operating requirements and the emergence of other service providers. These factors also reduce the predictability and increase the potential variability of these revenues.

While the total variance to date has not been significant, the use of a variance account would alleviate any stakeholder concerns about forecast risk/error. The objective of fairness to customers is also achieved through a tracking and true up process.
3.5 Nuclear Development Variance Account and Capacity Refurbishment Variance Account

3.5.1 Nuclear Development

OPG shall establish a Nuclear Development Variance Account in accordance with section 5.4 of the Regulation. This account will ensure that OPG recovers differences between actual non-capital costs incurred and firm financial commitments made and the amount included in payments for planning and preparation for the development of proposed new nuclear generation facilities. OPG’s nuclear development activities are described more fully in Ex. D2-T1-S3.

There are two other sections of the Regulation that establish and specify the treatment and recovery of costs related to the Nuclear Development Variance Account:

- 6(2) 4.1 The Board shall ensure that Ontario Power Generation Inc. recovers the costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities, to the extent the Board is satisfied that,
  
  i. the costs were prudently incurred, and
  ii. the financial commitments were prudently made

- 6(2) 7.1 The Board shall ensure the balances recorded in the deferral account established under subsection 5.3.(1) and the variance account established under subsection 5.4.(1) are recovered on a straight line basis over a period not to exceed three Years, to the extent the Board is satisfied that,
  
  i. the costs were prudently incurred, and
  ii. the financial commitments were prudently made

OPG established a Nuclear Development Deferral Account, Transition in accordance with section 5.3 of the Regulation. As provided in the Regulation, this account records development costs incurred and firm financial commitments made on or after June 13, 2006
up to the effective date of the OEB’s first payment order. The account records costs incurred in the course of planning and preparation for the development of proposed new nuclear generation facilities that are associated with any one or more of the following activities:

1. Activities for carrying out an environmental assessment under the Canadian Environmental Assessment Act.

2. Activities for obtaining any governmental licence, authorization, permit or other approval.

3. Activities for carrying out a technology assessment or for defining all commercial and technical requirements to, or with, any third parties.

Any balance in this account will be transferred to the Capacity Refurbishment Variance Account established in accordance with section 5.4 of the Regulation on the effective date of the OEB’s first payment order, and the Nuclear Development Deferral Account, Transition will be discontinued.

3.5.2 Capacity Refurbishment

OPG proposes to continue the Capacity Refurbishment Variance Account as discussed in Ex. J1-T1-S1. OPG established this account to record amounts associated with the cost recovery provisions defined in the Regulation. Paragraph 6 (2) 4 of the Regulation, dealing with rules governing the determination of payment amounts by the OEB, states that the OEB:

“Shall ensure that Ontario Power Generation Inc. recovers capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2, including, but not limited to, assessment costs and pre-engineering costs and commitments,

(i) if the costs and financial commitments 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 in respect of Ontario Power Generation Inc., or

(ii) if the costs and financial commitments were not approved by the Board of Directors of OPG before the making of the Board’s first order under section 78.1 of the Act in respect
of OPG, if the Board is satisfied that the costs were prudently incurred and that the financial commitments were prudently made.”

OEB approval of the requested variance account would be consistent with the terms of the Regulation.

This account includes costs for work that is undertaken pursuant to a directive that OPG received on June 16, 2006 from its shareholder, the Province as represented by the Minister of Energy. This directive recognizes that maintaining the current level of nuclear base load through 2025 requires a combination of refurbishment and the addition of capacity at existing nuclear sites. The account includes costs that were incurred to perform an assessment of the feasibility of refurbishing units at Pickering B and Darlington, including developing a cost estimate based on the physical condition of plant components, considering environmental and regulatory requirements, and timing for completing the work. OPG forecasts to continue its nuclear refurbishment initiatives during the test period, as discussed in greater detail in Ex. D2-T1-S3.

OPG is not currently planning to commence any refurbishment of its regulated hydroelectric facilities during the test period. Should OPG incur hydroelectric refurbishment costs for its regulated facilities, the costs will be recorded in a separate sub-account.

4.0 NEW ACCOUNTS

OPG requests approval to establish the following four new deferral and variance accounts:

- Nuclear Fuel Cost Variance Account
- Segregated Mode and Water Transactions Net Revenue Variance Account
- Pension/Other Post Employment Benefits (“OPEB”) Cost Variance Account
- Changes in Taxation Rates or Rules Variance Account

The rationale for these accounts and their operation is described in further detail in the remainder of this section.
4.1 Nuclear Fuel Cost Variance Account

OPG proposes to establish a Nuclear Fuel Cost Variance Account to record the difference between the forecast and actual cost of nuclear fuel expensed in the test period.

The uranium market has moved from a contract market towards a commodity market. Prices have increased substantially in recent years, and the prices have been significantly more volatile than in the past. As a result, nuclear fuel purchasing costs are becoming increasingly difficult to predict with any reasonable degree of precision for the test period. While OPG has implemented some risk mitigation measures, nuclear fuel cost volatility remains a significant business risk for OPG, and the probability of a material cost variance is high.

As noted at Ex. F2-T5-S1, the cost of the uranium concentrate is expected to represent about 63 percent of the total cost of the fuel bundles used in OPG’s nuclear plants by 2009. As explained in that exhibit, the other components of the fuel bundle cost are expected to remain reasonably stable, generally increasing at the rate of inflation. Given that the cost of the uranium concentrate is the largest component of the full bundle cost and given that the remaining components are expected to remain relatively stable, the variability in the total cost of the nuclear fuel is essentially the same as the variability in the cost of the uranium concentrate.

For simplicity, OPG is proposing to determine the variance based on the variance in the total cost of the fuel bundles. The nuclear fuel cost and production forecast approved by the OEB will be used to determine the $/MWh rate for the test period. The difference between this amount and OPG’s actual cost of nuclear fuel on a $/MWh basis will be applied to OPG’s actual nuclear production during the test period. The resulting amount will be recorded as the cost variance.

OPG’s nuclear fuel procurement forecast and the potential variability associated with the forecast cost for the test period is discussed in Ex. F2-T5-S1.

4.2 Segregated Mode and Water Transactions Net Revenue Variance Account
OPG proposes to continue the Segregated Mode and Water Transactions Net Revenue Variance Account described in Ex. J1-T1-S1 Section 3.2 during the test year period. OPG’s segregated mode of operations and water transactions, and OPG’s sharing of a portion of the net revenues from these activities, are discussed in Ex. G1-T1-S1. This variance account will record:

- The ratepayer share of revenues from hydroelectric power sales negotiated from time to time with Hydro Quebec for electricity generated at the R.H. Saunders Generating Station on the St. Lawrence River.

- The ratepayer share of revenues from water transactions from OPG to the New York Power Authority (“NYPA”) or from NYPA to OPG.

OPG proposes to continue its Segregated Mode and Water Transactions Net Revenue Variance Account to facilitate the sharing of OPG’s actual segregated mode of operation and water transaction net revenues earned during the test period. OPG does not forecast revenues from segregated mode of operations or water transactions as they are difficult to forecast with sufficient accuracy.

Segregated mode of operations revenues are difficult to forecast because they are dependent upon several factors, including OPG’s ability to reasonably estimate activity levels and anticipate the results of price negotiations. Transactions only occur when certain operating circumstances permit, opportunities exist in the Quebec energy market and a sales agreement can be successfully negotiated.

Water transactions are also not very predictable. These transactions involve the use of some of OPG’s water entitlement to generate additional electricity at NYPA’s facilities, which NYPA then sells into the New York market. These transactions also take place to a lesser degree from NYPA to OPG, with the energy sold into the Ontario market. The revenue associated with the transaction is shared by OPG and NYPA, based on the type of transaction. Because these transactions are based on water conditions, they are subject to the same uncertainty as the general energy forecast. In addition, acceptance of water transactions by either OPG
or NYPA is often discretionary. OPG enters into water transaction arrangements to make the
best use of the available resource.

OEB approval of this variance account would result in a reduction of future regulated
payments to be established by the OEB.

4.3 Pension/Other Post Employment Benefit (“OPEB”) Cost Variance Account
OPG proposes a Pension/OPEB Cost Variance Account to record the impact of changes in
the discount rate used to determine pension and OPEB cost for OPG’s regulated operations.
A change in this discount rate will cause a variance between the pension and OPEB cost
included in the revenue requirement and the actual pension and OPEB cost. The
Pension/OPEB Cost Variance Account would only be cleared if it exceeds a threshold/trigger
amount of $75M (excluding interest). If the accumulated actual variance plus the forecast
variance to the end of the bridge year exceeds the threshold/trigger amount of $75M, OPG
proposes to recover/refund the forecast balance during that test period. This clearance
mechanism would apply to both positive and negative variances.

The nature of OPG’s pension and OPEB plans, expected pension and OPEB costs for the
test period and OPG’s accounting for its pension and OPEB plans are discussed in Ex. F3-
T4-S1.

Consistent with Generally Accepted Accounting Principles (“GAAP”), pension and OPEB
costs for the current year are based on the measurement of pension fund assets and the
benefit obligations at the end of the previous year. Therefore, in order to project pension and
OPEB costs for business planning purposes, it is necessary to estimate the value of the
obligations and the pension fund assets at the end of each year. This requires making
projections of the actual pension fund performance and of economic, demographic and other
key assumptions, such as the discount rate, that will be used to determine the costs.
Relatively small changes in this discount rate can have significant impacts on pension and
OPEB costs actually recorded by OPG for a given year. In most instances, the discount rate
used to determine the actual pension and OPEB costs will only be available after payment
amounts have been set by the OEB. Therefore, the change in the discount rate and the resulting impact on pension and OPEB costs is not within OPG’s control.

OPG’s company-wide pension and OPEB costs have exhibited significant variances from forecast (2005 - $11M under forecast, 2006 - $130M over forecast, 2007 - $55M over forecast). Changes in the discount rate were a significant part of these variances. The variances were calculated relative to forecasts which were prepared two years in advance of each of the above years, which is consistent with the concept of forecasting for a two year test period. Approximately 80 percent of these variances are attributed to OPG’s regulated operations. For example, the total pension/OPEB expenses for 2008 would have been $68M under forecast if the discount rate used in OPG’s 2006 business plan had been used to forecast the 2008 pension/OPEB expense. The portion of the variances attributed to OPG’s regulated operations is consistent with the portion of the actual historical pension/OPEB costs that OPG attributes to its regulated operations, as presented in Ex. F3-T4-S1.

While the determination of actual pension/OPEB costs in accordance with GAAP is impacted by a number of factors, historically one of the most significant contributors to variances has been changes to the discount rate. OPG does not control the actual discount rate assumption that is ultimately required to be used to determine OPG’s actual pension and OPEB costs for the current year. Consistent with GAAP, OPG uses the discount rate as of the end of the preceding year, however, the cost forecasts are prepared approximately two to three months earlier, as part of OPG’s standard business planning process.

The proposed $75M threshold/trigger is consistent with variances from forecast experienced by OPG for its regulated operations in recent years, as noted above. A change in the discount rate of 25 basis points is not uncommon and can produce a financial impact on OPG’s company-wide pension and OPEB costs of approximately $50M. OPG is proposing to use $75M as the upper and lower disposition threshold. The proposed $75M

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1 The approximate financial impact of a change of 25 basis points in the discount rate is based on OPG’s company-wide pension and OPEB costs for the year ended December 31, 2007.
threshold/trigger should generally allow for the impact of more than a 25 basis point change in the discount rate on the pension/OPEB costs associated with OPG’s regulated operations.

OPG’s proposed Pension/OPEB Cost Variance Account will adequately address the underlying risk of cost recovery, and fulfill the OEB’s regulatory objective of maintaining rate stability. In order to appropriately address forecast risk, the cumulative balance in the account should be cleared. In this regard, recording of the cumulative balance would address OPG’s forecast risk and the inclusion of interest on the balance would address concerns with respect to financing of the account balance. The proposed variance account reduces forecast risk for OPG and assessment risk for electricity consumers associated with material variances in these costs. This contributes to a review process that can be less contentious and the long-run rate impact that is more accurate and fair to both OPG and ratepayers (i.e., reflective of actual versus forecast costs).

4.4 Changes in Tax Rates, Rules, and Assessments Variance Account

OPG proposes a Change in Tax Rates, Rules, and Assessments Variance Account to capture the impact on revenue requirement of:

- Any differences that result from a legislative or regulatory change to the tax rates or rules of the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as modified by the regulations under the Electricity Act, 1998 to determine payments in lieu of corporate income taxes and capital taxes and the regulations under the Electricity Act, 1998 to determine payments in lieu of property tax to the Ontario Electricity Financial Corporation. Details of these above payments are provided in Ex. F3-T2-S1.
- Any differences in municipal property taxes that result from a legislative or regulatory change to the tax rates or rules for its regulated assets under the Assessment Act, 1990. Details of these municipal property taxes are provided in Ex. F3-T2-S1.
- Any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities, or court decisions on other taxpayers that OPG will incorporate in determining its actual payments in lieu of corporate income taxes and capital taxes.
• Any differences that result from tax assessments or re-assessments (including reassessments associated with the application of these rates and rules to OPG’s regulated operations or changes in assessing or administrative policy including court decisions on other taxpayers).

As discussed in Ex. F3-T2-S1, OPG is currently being audited by the Provincial Tax Auditors. Based on a preliminary communication from the Tax Auditors with respect to their initial findings, OPG expects to receive a reassessment that may result in an increase to income taxes. This event is beyond OPG’s control. OPG expects that the reassessment may result in a material financial impact; however the amount of the ultimate settlement is not predictable with sufficient accuracy to include it in OPG’s forecast. Including a reassessment value in its forecast would reduce the tax loss carry forward amount. OPG has applied these tax loss carry forward amounts to reduce income tax expense during the test period, and to mitigate the consumer impact of OPG’s revenue requirement proposals as described in Ex. F3-T2-S1 and Exhibit K.

OPG notes that in December 2005, the OEB issued a communication (Response to Frequently Asked Questions with respect to the Accounting Procedures Handbook for the Electricity Distribution Utilities – Response #19) that allowed regulated electric distributors to use Account 1592, 2006 Payments In Lieu and Taxes Variances, to capture the tax impact a number of items including “any differences that result from a legislative or regulatory change to the tax rates or rules assumed” and “any differences that result from a change in, or a disclosure of, a new assessing or administrative policy “as well as specified tax re-assessments.

OPG forecasts taxes and payments in lieu of taxes (where applicable) for the test period based on the enacted tax rates and laws currently in effect. OPG has not forecast the impact of potential changes in laws, tax rates, rules or reassessments pursuant to these rules (e.g., potential amendment to O. Reg. 224/00 pursuant to the Electricity Act, 1998 impacting the amount of payments in lieu of property taxes is discussed in Ex. F3-T2-S1). All these matters are beyond the control of OPG.
While the impact of an announced or anticipated tax change is generally known for some period of time in advance of its effective date, typically the timing and implementation requirements associated with the change are uncertain, making it difficult to define the financial impact. Such a change is beyond OPG’s ability to control. In addition, there are several processes associated with tax such as reassessments or appeal settlements, which can take place when OPG is not before the OEB for a revenue requirement determination. Such processes can have significant impacts on the tax provisions included in the prevailing payment amounts at the time. These financial impacts are also beyond the control of OPG.

5.0 POTENTIAL FUTURE ACCOUNTS

OPG wishes to bring to the OEB’s attention the possibility that OPG may apply for a variance account via an accounting order application in the event unforeseen material events/activities occur.

Such potential future accounts which are described below include, but are not limited to:

- Unforeseen Changes in Nuclear Technology
- Changes in Regulatory Requirements
- Acts of God
- Transmission Restrictions and Limitations
- First Nation Settlements
- Changes in the Gross Revenue Charge

5.1 Unforeseen Changes in Nuclear Technology

OPG is not proposing at this time to re-establish an Unforeseen Changes in Nuclear Technology Variance Account, which is contemplated by the Regulation. However, OPG may apply for a variance account for this purpose if OPG experiences a material financial consequence arising from an unforeseen change in nuclear technology or regulatory requirements.

The purpose of this variance account would be to record the revenue requirement impacts due to deviations from the forecasts that are associated with unforeseen changes to nuclear
regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities (excluding nuclear decommissioning liabilities, which are accounted for elsewhere).

OPG has not recorded any activity in this account since it was established. OPG notes that the Regulation does not require the continuation of this account. Nonetheless, the financial impact of an unforeseen technological or regulatory change is not predictable, is not generally controllable and can be significant.

5.2 Changes in Regulatory Requirements

OPG is not proposing to establish a Regulatory Requirements Variance Account at this time. However, in the event that the IESO changes the market rules and/or the Canadian Nuclear Safety Commission or other regulators establish new requirements that impose potentially significant costs in respect of the prescribed facilities, OPG will consider whether an application for a variance account is warranted.

5.3 Acts of God

OPG is not proposing at this time to re-establish an Acts of God Variance Account, which is contemplated by the Regulation. Rather, the Company proposes to proceed by way of separate accounting order applications on a case specific basis in the event unforeseen material impacts arise from Acts of God.

The purpose of this variance account would be to record the revenue requirement impacts due to deviations from the forecasts that are associated with Acts of God, including severe weather events.

OPG has not recorded any activity in this account since it was established. OPG notes that the Regulation does not require the continuation of this account, and that this type of account is not typically approved by the OEB. However, the financial impact of an Act of God is not predictable, is not controllable and can be significant.
5.4 Transmission Restrictions and Limitations

OPG is not proposing at this time to re-establish this variance account, which is contemplated by the Regulation. Rather, the Company proposes to proceed by way of separate accounting order applications on a case specific basis in the event a transmission restriction or limitation results in a material financial impact.

The purpose of this variance account would be to record the revenue requirement impacts due to deviations from the forecasts that are associated with transmission outages and transmission restrictions that are not otherwise compensated for through congestion management settlement credits under the market rules.

While there is a high probability such an event will occur, and management has no ability to control this risk, the financial impact is frequently mitigated through congestion management settlement credits payments. This is substantiated by OPG’s experience to date. Three incidents with a combined financial impact of less than $2M have been recorded in this account during the two year period this variance account has been in place. This cost is reasonably predictable and the expenses do not appear to vary significantly from year to year. However, the risk of a material/significant event is not reflected in OPG’s production forecast.

5.5 First Nation Settlements

OPG is not proposing at this time to establish a First Nations Settlements Variance Account. However, in the event that the status of negotiations or settlements associated with legal claims related to OPG's regulated operations result in a change in OPG's liability provision and associated expense, OPG would consider whether an application for a variance account is warranted at that time.

The negotiation of various First Nation claims are sensitive matters that are generally conducted over many years, the timing and amount of any particular settlement is not predictable, and the status of negotiations and actual settlement of claims can result in significant changes in OPG’s expected liability and associated expense.
There is no First Nations settlement costs included in the proposed revenue requirement.

5.6 Changes in the Gross Revenue Charge

OPG is not proposing at this time to establish a variance account to reflect changes in the regulation that sets out the gross revenue charge. Gross revenue charge is derived from the annual generation of electricity from its hydroelectric generating assets and paid to the Ontario Government, the Niagara Parks Commission and the Ontario Electricity Financial Corporation. OPG forecasts gross revenue charge for the test period based on the enacted tax rates and laws that are currently in effect.

The purpose of this variance account would be to record the financial impact on OPG of any changes in the gross revenue charge regulation, including changes in the rates and the methodology used to calculated gross revenue charge. OPG intends to apply for a variance account if changes in the matters described above are forecast to result in a potentially material financial impact.