MITIGATION OF PAYMENT AMOUNT INCREASES

OPG’s revenue requirement forecast as presented in Ex. K1-T1-S1 summarizes the revenue and expense evidence for OPG’s 21 month test period for the nuclear and regulated hydroelectric facilities. OPG recognizes that the revenue requirement increase over the current payment amounts is significant and will have an impact on electricity consumers. OPG proposes to mitigate this impact by crediting the benefit associated with certain tax losses accumulated over the interim period to consumers in the test period.

As detailed in Ex. F3-T2-S1, the regulatory taxable income calculation for the years 2005 - 2008 results in tax losses for those years. OPG has used the accumulated tax losses at the end of 2008 to reduce the regulatory taxable income for 2009 to nil. The projected remaining balance of regulated tax losses is $503.2M at the end of 2009.

Absent any mitigation, OPG would propose to carry forward this balance to reduce regulatory taxable income in future years until no tax loss balance remained. To mitigate the increase in payment amounts in this application, OPG proposes to accelerate the application of the available tax losses to reduce the test period revenue requirement. This mitigation approach results in the application of the associated tax loss balance multiplied by the 2009 income tax rate of 32 percent (see Ex. F3-T2-S1 Table 7) to revenue requirement in the test period. This results in a reduction to the revenue requirement of $228M. This mitigation approach results in a 14.8 percent increase in the payment amounts, as opposed to an 19.0 percent increase without mitigation.

OPG proposes to apply the mitigation associated with the tax loss carry forward balance to its nuclear and regulated hydroelectric payment amounts to achieve a consistent payment amount increase across the two technologies. This application results in a reduction of regulated hydroelectric revenue requirement of $90.1M and a reduction in the nuclear revenue requirement of $137.9M. The offset in revenue requirement associated with mitigation is used in the calculation of the regulated hydroelectric and nuclear payment amounts as presented in Ex. K1-T2-S1 and Ex. K1-T3-S1, respectively.