1.0 PURPOSE

This evidence presents the revenues earned by OPG under the Bruce Lease Agreement (the “Bruce Lease”), as well as revenues earned from agreements associated with the Bruce Lease, and the related costs OPG incurs 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 $128.1M and $143.0M for 2011 and 2012, respectively as shown in Ex. G2-T2-S1 Table 1. These net amounts are an offset to the nuclear revenue requirement.

Section 3 of this exhibit presents an overview of the Bruce Lease and associated agreements. Section 4 considers Bruce Lease revenues and section 5 considers Bruce Lease costs. A year-by-year presentation of Bruce Lease revenues and costs for the 2007 - 2012 period is provided in sections 4.5 and 5.2, respectively.

3.0 OVERVIEW OF BRUCE LEASE AND ASSOCIATED AGREEMENTS

OPG has leased its Bruce A and Bruce B Generating Stations and associated lands and facilities to Bruce Power. The Bruce Lease sets out the main terms and conditions of the lease arrangement between OPG and Bruce Power (including lease payments). The initial term of the lease is to December 31, 2018. In association with the Bruce Lease, OPG and Bruce Power have entered into a number of agreements in regard to the provision of services by OPG to Bruce Power, or by Bruce Power to OPG. The revenues and costs associated with the Bruce Lease and associated agreements are calculated based on the OEB’s Decision in EB-2007-0905.

OPG engaged Black & Veatch Corporation Inc. to review OPG’s methodology for assigning and allocating revenues and costs to the Bruce Facilities and under the Bruce Lease. Black & Veatch have issued a report provided in Ex. F5-T2-S1 that states on page 19:
Black & Veatch has reviewed OPG’s methodology for assigning and allocating revenues and costs to the Bruce facilities and under the Bruce Lease. We believe that the methodology is appropriate and properly reflects the costs OPG incurs and the revenues it realizes, and complies with the OEB’s Decision in EB-2007-0905.

4.0 REVENUES FROM BRUCE LEASE AND ASSOCIATED AGREEMENTS

The Bruce Lease revenues are $254.4M and $268.7M for 2011 and 2012, respectively. Actual revenues earned by OPG for the years 2007 - 2009 and forecast revenues for the years 2010 - 2012 from these agreements are summarized in Ex. G2-T2-S1. Paragraphs 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.

Revenues are derived from the Bruce Lease, the Used Fuel Waste and Cobalt-60 Agreement, the Low and Intermediate Level Waste Agreement, and the Bruce Site Services Agreement. Sections 4.1 through 4.4, respectively describe these four sources of revenue. Section 4.5 presents the revenues for the 2007 - 2012 period. Effective April 1, 2008, revenues pursuant to these four agreements are also subject to the Bruce Lease Net Revenues Variance Account, as discussed in Ex. H1-T1-S1 section 6.7.

4.1 Bruce Lease Revenues

Bruce Lease revenues consist of: amortization of initial deferred rent, base rent discussed in section 4.1.1, and supplemental rent discussed in section 4.1.2. The Bruce Lease revenues are presented in Ex. G2-T2-S1 Table 2.

4.1.1 Base Rent Revenue

The Bruce Lease contains a base rent amount that is set out in the lease and is fixed for each year of the lease. Prior to April 1, 2008, OPG accounted for base rent revenues from the Bruce Lease on a cash basis. This method was used to establish the revenues provided to the Province for the purposes of setting payment amounts for the period April 1, 2005 to March 31, 2008.
The OEB’s Decision in EB-2007-0905 (page 110) directed OPG to calculate all Bruce revenues and costs in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) policies that an unregulated commercial entity would use. This direction resulted in a mandatory change in accounting for base rent revenue from a cash basis to a straight-line (or accrual) basis applied from April 1, 2008 onward. As a result, base rent revenues in Ex. G2-T2-S1 Tables 2 and 3 are presented on a cash basis for 2007 (and the first three months of 2008 as part of the 2008 annual amount), and on a straight-line basis starting on April 1, 2008. The straight-line basis requires recognition of an equal amount of lease revenue over the term of the lease (i.e., to December 2018). This amount is determined by dividing the total expected fixed component of lease revenues over the lease term by the number of years in the lease term.

In late 2008, OPG and Bruce Power reached an agreement that effectively binds Bruce Power to the renewal of the Bruce Lease beyond the initial expiry date of December 31, 2018. If Bruce Power fails to renew and extend the Bruce Lease to at least June 2027 or if Bruce Power terminates the lease prior to the expiration of the initial term, it will make a one-time payment to OPG in accordance with a time-based schedule set out in the agreement. By entering into this agreement, OPG gained greater certainty of lease revenues beyond the initial term. For its part, OPG agreed not to seek a base rent increase resulting from the increase in the estimated cost of decommissioning the Bruce A and B stations in the 2006 Ontario Nuclear Funds Agreement (“ONFA”) Reference Plan. As a result of this significant change in the lease, GAAP required the accounting for the lease to be reassessed. The reassessment determined the most likely outcome to be a continuation of the lease to December 2036. OPG is continuing to record the lease revenues on a straight-line basis but over the period to December 2036.

4.1.2 Supplemental Rent Revenue

In addition to the predetermined amount of base rent, Bruce Power also pays a variable amount of supplemental rent. The supplemental unit rate is currently in the order of $30M per unit per year (in 2009 dollars) and is applied on the basis of the number of generating units operational in a given calendar year. The full amount of supplemental rent is due to OPG
regardless of the duration of the actual operation of a unit during a given year (with the exception of the year in which a refurbished unit is returned to service, in which case the supplemental rent is pro-rated). The supplemental unit rate is escalated annually by the consumer price index (Ontario).

In October 2005, OPG was directed by its Shareholder to make further amendments to the Bruce Lease in connection with the refurbishment and return-to-service of certain Bruce A Units. Completion of a refurbishment and declaration of operational service of any of these units would result in a reduction in supplemental rent to $6.5M per year per unit (in 2009 dollars) escalated by the consumer price index (Ontario).

Supplemental rent is generally recognized on a cash basis in accordance with GAAP because it is not a fixed amount and is contingent on the number and operational state of Bruce units. Supplemental rent is also dependent on the hourly Ontario energy price (“HOEP”). A provision in the supplemental rent agreement requires a reduction in the supplemental rent amount in each calendar year where the annual arithmetic average of the HOEP ("Average HOEP") falls below $30/MWh, and certain other conditions are met. OPG accounts for this provision as a reduction in revenue in any year that these conditions are met. In addition, this conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is accounted for as a derivative. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income.

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. Under this Agreement, OPG has also accepted 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-T2-S1 Table 2. Revenues under this agreement are recorded as the services are provided.
4.3 **Low and Intermediate Level Waste Agreement Revenues**

Under this Agreement, OPG is obligated to manage (i.e., collect, store, and dispose of) low-level and intermediate-level radioactive waste generated by Bruce Power. In return, Bruce Power pays OPG a fee for the provision of low-level and intermediate-level radioactive waste management services. The fee is volume-based, escalated annually by the consumer price index (Ontario), and determined on the basis of OPG’s estimated future costs of managing the low-level and intermediate-level waste generated by Bruce Power. Revenues under this agreement are recorded as the services are provided.

In March 2007, OPG and Bruce Power entered into a Supplemental Agreement to the Low and Intermediate Level Waste Agreement (the “Supplemental Waste Agreement”) related to waste generated during the refurbishment of Bruce A, Units 1 and 2. The Supplemental Waste Agreement requires OPG to manage low-level and intermediate-level radioactive waste (e.g., steam generators and reactor pressure tubes) generated by Bruce Power as a result of the refurbishment. Bruce Power paid OPG an upfront fee determined on the basis of OPG’s estimated future costs of managing the incremental volume of waste received under the Supplemental Waste Agreement in 2007 and 2008.

In October 2009, OPG and Bruce Power negotiated an amendment to the Supplemental Waste agreement which gives Bruce Power the option to retrieve low-level radioactive waste (i.e., steam generators) from OPG. The option expires December 31, 2011 unless Bruce Power has provided notice of its intention to exercise it by then. If the option is exercised, OPG is required to refund the payments previously received under the Supplemental Waste Agreement less the costs it has incurred to manage the steam generator waste. To date this option has not been exercised by Bruce Power and no amounts related to its potential exercise have been included in the test period.

The impact of the Low and Intermediate Level Waste Agreement on revenues from Bruce Power is set out in Ex. G2-T2-S1 Table 2. In accordance with GAAP, payments received under the Supplemental Waste Agreement are netted against waste management variable expenses as discussed in section 5.1 below.
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 majority of the services are provided by Bruce Power to OPG. The services contemplated by this Agreement are necessary to accommodate the joint occupancy and use of the Bruce site by OPG and Bruce Power. Some examples of site services provided by OPG to Bruce Power include landfill services, inventory and material storage, and transportation of non-waste radioactive material. Some examples of site services provided by Bruce Power to OPG include scaffolding services, sewage and storm sewer services, snow removal services, site security and emergency response services, radiation detection services, bus and winter storm transportation services, and maintenance of OPG transport and work equipment. Site service revenues are set out in Ex. G2-T2-S1 Table 2 and related costs are discussed in section 5.0 below.

4.5 Comparison of Revenues

Exhibit G2-T2-S1 Tables 2 and 3 present revenues from the Bruce Lease and associated Agreements. Services revenue and the amortization of initial deferred rent remain relatively stable over the period 2007 - 2012, with the exception of the decrease in 2009 resulting from the lower revenues under the Low and Intermediate Level Waste Agreement. Lower revenues under this Agreement resulted primarily from lower waste volumes received from Bruce Power during the year. Services revenue and the amortization of initial deferred rent remained largely on budget in 2007 and 2008, and were below budget in 2009 as a result of the lower revenues under the Low and Intermediate Level Waste Agreement.¹

Actual base rent revenue is stable in 2007 and 2008 at approximately $70M per year, decreasing significantly to approximately $40M per year for the 2009 - 2012 period. This decrease in base rent is primarily a result of the extension, for accounting purposes, of the lease term over which base rent payments are recognized on a straight-line basis starting in

¹ Revenues under the Supplemental Agreement for 2007 and 2008 were presented as part of services revenue in EB-2007-0905 evidence but have been reclassified as an offset to related nuclear waste management variable expenses in Ex. G2-T2-S1 Tables 5 and 6 to conform to the presentation in the Payment Amounts Order and the GAAP-compliant presentation in OPG’s external audited financial statements.
late 2008. This extension results in the lower base rent payments for the period post 2018 being factored into the calculation of the straight-line recognition of rent for the entire lease term. The extension of the term is discussed above in section 4.1.1.

Actual base rent was below budget in 2008 and 2009 by approximately $20M and $48M, respectively. The budget amounts are based on the values in EB-2007-0905 Payment Amounts Order which assumed a start date for the calculations of the impact of implementing straight-line accounting for base rent of April 1, 2005. In accordance with GAAP, this date was subsequently determined to be April 1, 2008, and the actuals assume this start date for the calculations. This difference in start dates accounts for the majority of the variance in 2008. For 2009, approximately $41M of the variance was due to the extension in the Bruce Lease term as discussed above, with the majority of the remaining variance due to the differing starting dates for recognizing base lease revenue on a straight-line basis noted above. These variances from budget for 2008 and 2009 are reflected in the Bruce Lease Net Revenues Variance Account discussed in Ex. H1-T1-S1 section 6.7.

The supplemental rent is relatively stable during 2007-2008. There is a significant decrease of approximately $185M in 2009. In 2009, the Average HOEP was less than $30/MWh and the provision in the supplemental rent agreement that addresses this circumstance resulted in a reduction in supplemental rent of $69M. There is a further reduction to supplemental rent which was recognized in 2009 associated with OPG’s assessment of the fair value of the embedded derivative in the terms of the Bruce Lease. As a result of the significant reduction in the Average HOEP during 2009, the fair value of the derivative increased to $118M in 2009. The supplemental rent to be recognized for accounting purposes in 2010 and 2011 is forecast at 2007 and 2008 levels because the best estimate of the possibility of the conditions that led to the decrease in recognized supplemental rent in 2009 reoccurring in future years is already reflected in the liability for the embedded derivative recognized in 2009. Changes in the forecast of Average HOEP for future years could result in a change in the possibility of these conditions reoccurring in future years, and therefore impact the fair value of the derivative and the forecast of supplemental rent.
Supplemental rent is forecast to increase in 2012, as compared to 2011, due to the assumed return-to-service of Bruce A, Units 1 and 2. The supplemental rent amounts for the refurbished Bruce A Units will be recorded at a rate significantly lower than the other operational Bruce Units as a result of the provisions of the lease around units refurbished and returned to operational service. Supplemental rent was on budget for historical years 2007 and 2008, and significantly below budget in 2009 mainly due to the impact of the provision related to a year when the Average HOEP is less than $30/MWh as described above.

5.0 COSTS FROM BRUCE LEASE AND ASSOCIATED AGREEMENTS

Section 6(9) of O. Reg. 53/05 provides that the OEB shall ensure that OPG recovers all the costs that it incurs with respect to the Bruce Nuclear Generating Stations. The costs to be recovered in the test period with respect to the Bruce Nuclear Generating Stations have been separated into two categories. The first category, which represents the majority of the costs, includes those cost components (“Bruce Costs”) discussed in this exhibit and used to determine the amount of Bruce Lease net revenues available to reduce the nuclear revenue requirement. The definition of Bruce Costs used in this Application is consistent with that underlying the OEB’s Decision in EB-2007-0905. All Bruce Costs are subject to the Bruce Lease Net Revenues Variance Account.

The second category, which is relatively minor, includes all other costs incurred by OPG with respect to the Bruce Nuclear Generating Stations (“Other Costs”). They are described in other exhibits throughout the evidence and are recovered as part of the general nuclear revenue requirement. These Other Costs are not tracked separately because they are relatively small and are included in the budgets of a variety of corporate support groups, and nuclear base OM&A.

Other Costs include those costs that corporate support and nuclear groups incur to administer the Bruce Lease and associated Agreements or to provide services to Bruce Power at the Bruce site. Other Costs are also incurred for the provision of inspection, maintenance and other revenue generating services to Bruce Power as explained in Ex. G2-
T1-S1. Finally, the costs that OPG pays for services acquired from Bruce Power, related to OPG’s joint use of the Bruce site, are included in the budgets of the OPG departments responsible for managing those services. Examples include telecommunications and security services.

As noted above, Black and Veatch has reviewed OPG’s methodology for assigning and allocating costs to the Bruce Facilities and under the Bruce Lease and concluded that the methodology is appropriate and properly reflects the costs OPG incurs and complies with the OEB’s Decision in EB-2007-0905.

5.1 Description of Bruce Costs

The following categories of Bruce Costs are presented in Ex. G2-T2-S1 Table 5:

- **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 (discussed in Ex. C2-T1-S1). The depreciation forecast for the bridge year and test period is based on the closing Bruce fixed asset values derived from OPG’s 2009 audited consolidated financial statements. Fixed asset values for the Bruce assets over the period 2007 - 2012 are presented in Ex. G2-T2-S1 Table 4. No additions to the Bruce fixed assets are anticipated in the period 2010 - 2012. Fixed asset additions to the Bruce stations, with the exception of those resulting from changes to OPG’s asset retirement obligations ("ARO"), are not recorded in OPG’s accounting records as these additions are the property of Bruce Power. OPG applied the depreciation methodology described in Ex. F4-T1-S1 to derive the depreciation expense for each year.

- **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 OEFC, as described in Ex. F4-T2-S1.

- **Ontario Capital Tax ("OCT")**: OPG is subject to OCT for the Bruce assets. A general description of OCT is found at Ex. F4-T2-S1. The amount of OCT related to Bruce assets
represents an allocation based on the net book value of in-service fixed assets of each business within OPG. The OCT is currently scheduled to be eliminated effective July 1, 2010. As such, there is no OCT for Bruce included in the test period.

- Accretion: The forecast accretion expense for the period 2010 - 2012 is derived by reference to the ARO balance as at December 31, 2009 in OPG’s 2009 consolidated financial statements and the decrease in the ARO balance recorded on January 1, 2010 as a result of the approval of the definition phase of the Darlington Refurbishment project as discussed in Ex. C2-T1-S2. The forecast accretion expense for 2010 - 2012 is therefore derived by applying the appropriate accretion rates as follows:
  - 5.75 per cent to the portion of the ARO pertaining to Bruce stations that was in existence prior to December 31, 2006.
  - 4.6 per cent to the additional ARO recorded on December 31, 2006 following the update of cost estimates reflected in the ONFA Reference Plan.
  - 4.8 per cent to the decrease in the ARO recorded on January 1, 2010.

The forecast of accretion expense for 2010 - 2012 also takes into account the increases in the ARO due to the additional Used Fuel Storage and Disposal Costs and Waste Management Variable Expenses (discussed below) expected to be recorded during each forecast year, as well as the expenditures on activities expected to draw down the ARO during the year. The forecast of the ARO for 2011 and 2012 also takes into account the forecast growth in the ARO due to forecast accretion during the preceding years.

As at December 31, 2009, the portion of OPG’s ARO related to the Bruce assets being accreted at 5.75 per cent was $4,302M and the portion being accreted at 4.6 per cent was $1,013M. The amount of the decrease to OPG’s ARO related to Bruce assets recorded on January 1, 2010 was $204M. OPG maintains a station-level continuity of ARO consistent with the ONFA Financial 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, depending on the nature of the underlying decommissioning and waste management programs as discussed further in Ex. C2-T1-S2.
Earnings (Losses) on Nuclear Segregated Funds: As described in Ex. C2-T1-S1, in accordance with ONFA, OPG is required to maintain and contribute to segregated funds for the decommissioning of all of OPG’s nuclear stations, including the Bruce stations, as well as for storing and disposing of used fuel and low and intermediate level waste, including that generated by the Bruce stations. Pursuant to GAAP, OPG includes earnings/(losses) resulting from the investment of the nuclear segregated funds pertaining to Bruce stations as a cost associated with Bruce assets. While OPG forecasts earnings on its segregated funds to be at a rate of 5.15 per cent (the long-term target rate of return as per the ONFA), a significant downturn in capital markets resulted in substantial losses in 2008. The forecast amounts for 2010 - 2012 are determined based on the application of the 5.15 per cent rate to the actual closing balance of the funds attributable to the Bruce stations derived from OPG’s 2009 consolidated financial statements and the forecast balances in subsequent years. The balance of the nuclear segregated funds attributable to Bruce as at December 31, 2009 was $5,187.2M as shown in C2-T1-S2 Table 2.

The actual/forecast funds balance at the end of a given year is attributed to each nuclear station, including Bruce stations, based on a rolling continuity schedule. The ONFA prescribed how much of the opening balance of the funds related to each station. Subsequently, actual/forecast earnings/losses are attributed to each station based on the opening balance for each station, adjusted for a pre-determined allocation of actual/forecast contributions pursuant to the ONFA and an allocation of actual/forecast disbursements from the funds among stations based on the cost estimate in accordance with the current approved ONFA Reference Plan. Based on the above, minimal allocation assumptions are necessary to attribute actual and forecast segregated funds balances and earnings on the segregated funds to each station.

Used Fuel Storage and Disposal Costs: As noted above, pursuant to the Used Fuel Waste and Cobalt-60 Agreement, OPG is responsible for interim storage and long-term disposal of used fuel waste generated by the Bruce Nuclear Generating Stations. The variable costs associated with storing and disposing of incremental used nuclear fuel
produced by Bruce Power are included in the period incurred as an expense related to Bruce assets in accordance with GAAP. These costs are presented as part of fuel expense in OPG’s consolidated financial statements. Exhibit C2-T1-S1 provides greater detail on these variable costs. OPG’s costs associated with cobalt-60 services provided to Bruce Power are presented as part of OPG’s costs associated with the nuclear non-energy businesses in Ex. G2-T1-S1.

- Waste Management Variable Expenses: The variable costs associated with managing the incremental quantities of low-level and intermediate-level radioactive nuclear waste produced by Bruce Power are included as a period expense related to Bruce assets in accordance with GAAP. Exhibit C2-T1-S1 provides greater detail on these variable costs.

- Interest: Interest related to Bruce assets represents an allocation of OPG’s actual/forecast corporate-wide GAAP interest expense after attributing forecast project-specific interest to appropriate business units. The forecast interest expense allocation is based on the historical proportion of the average net book value of OPG’s total in-service fixed assets (excluding in-service fixed assets financed by project-specific debt) on lease to Bruce Power. This approach is consistent with that used in the calculation of the approved forecast interest expense for Bruce in EB-2007-0905. The allocation factor used to attribute OPG’s non-project specific interest costs to Bruce historically has been stable at approximately 10 per cent.

- Current Income Taxes: The current income taxes for Bruce assets are calculated in accordance with the Income Tax Act (Canada), the Corporations Tax Act (Ontario), and for taxation years ending after December 31, 2008, the Taxation Act, 2007 (Ontario), as modified by the Electricity Act, 1998 and related regulations. The amount of taxes is determined by applying the substantially enacted statutory tax rate to taxable income, which is computed by making adjustments to the Bruce stand-alone GAAP-based
earnings before tax for items with different accounting and tax treatment in accordance with applicable legislation. Earnings before tax for each year are determined as the difference between revenues and direct costs. The adjustments to compute taxable income relating to depreciation/capital cost allowance; used fuel and waste management expenses; cash expenditures for used fuel, waste management and decommissioning; and nuclear segregated fund contributions and receipts are described in Ex. F4-T2-S1.

In addition, the following adjustments are also made in computing the Bruce Lease taxable income:

- **Base Rent Accrual** – Bruce Lease revenue is generally taxed when it is legally receivable. As such, the accounting base rent revenue, which is recognized on a straight-line basis, is adjusted to reflect the amount of base revenue receivable under the Bruce Lease.

- **Accretion** – The increase in the present value of the ARO due to the passage of time is an accounting expense that is not deductible for income tax purposes under the *Income Tax Act* (Canada).

- **Adjustment Related to Embedded Derivative** – The unrealized changes in the fair value in the embedded derivative relating to the conditional reduction in supplemental rent described in section 4.1.2 are not taxable/deductible for income tax purposes under the *Income Tax Act* (Canada).

- **Deferred Rent Revenue** – The initial proceeds received by OPG as a result of the lease of the Bruce Nuclear Generating Station in 2001 were reported for income tax purposes in the year of receipt in accordance with the *Income Tax Act* (Canada). Therefore, the amortization of the initial deferred revenue for accounting purposes does not have implications on current taxable income, and hence is reversed for tax purposes.

- **Earnings (Losses) On Segregated Funds** – The earnings on nuclear segregated funds are not taxable (and, correspondingly, the losses are not deductible) for income tax purposes as per the Regulations to the *Electricity Act, 1998*, until they are withdrawn from the funds in the form of reimbursements for eligible decommissioning used fuel management expenditures.
Calculations of the actual current income tax expense for the period April 1, 2008 to December 31, 2008 and full year 2009 are presented in Ex. G2-T2-S1 Table 8.

Calculations of forecast current income taxes for 2010 - 2012 are presented in Ex. G2-T2-S1 Table 7. No amounts are presented for 2007 or the first quarter of 2008 as OPG was not subject to the GAAP method of calculating Bruce costs and revenues on a stand-alone basis prior to April 1, 2008, and thus did not track the information necessary for this calculation.

- Future Income Taxes: Pursuant to the OEB’s Decision in EB 2007-0905, OPG’s forecast costs associated with Bruce assets included a future income tax expense as part of the approved revenue requirement. The recognition of future income tax expenses is a mandatory GAAP requirement for unregulated entities.

In general, future 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 future income 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 future income tax liability is reversed through a reduction to the future 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.

The amount of future income taxes related to Bruce assets is calculated on a stand-alone basis using the forecast/actual Bruce direct costs and revenues. Calculations of the actual future income tax expense for the period April 1, 2008 to December 31, 2008 and full year 2009 are presented in Ex. G2-T2-S1 Table 8. Calculations of forecast future income taxes for 2010 - 2012 are presented in Ex. G2-T2-S1 Table 7. No amounts are
Presented for 2007 or the first quarter of 2008 as OPG was not subject to the GAAP
method of calculating Bruce costs and revenues prior to April 1, 2008, and thus did not
track this information.

5.2 Comparison of Bruce Costs

Exhibit G2-T2-S1 Table 6 presents a period-over-period and budget-to-actual comparison of
Bruce Costs. The variances shown in that table are explained below:

- Depreciation: Actual depreciation expense decreased in 2008 as compared to 2007 due
to the January 1, 2008 extension of the estimated service lives, for accounting purposes,
of the Bruce A and Bruce B Nuclear Generating Stations to December 31, 2035 and
December 31, 2014, respectively. The expense remained stable in 2009. The projected
expense over the 2010 - 2012 period is consistent but significantly lower than the 2009
actual expense due to the January 1, 2010 reduction in Bruce ARC of approximately
$182M as presented in Ex. G2-T2-S1 Table 4 following the decrease in the ARO
associated with Bruce stations discussed in Ex. C2-T1-S2.

- Property Tax: With the exception of 2008 actual expense, property tax remained and is
expected to remain stable over the period 2007 - 2012. The negative expense of $1.0M
in 2008 is primarily due to a successful resolution of an appeal of municipal property
taxes in the municipality of Kincardine in the first quarter of 2008, resulting in the refund
of taxes relating to prior periods. The 2007 actual expense is significantly lower than
budget primarily as a result of the inclusion in the budgeted amount of an assumed
update to O. Reg. 224/00 that did not occur, as discussed in Ex. F4-T2-S1. The 2008
actual expense is significantly lower than budget as a result of the refund described
above. The 2009 actual expense is somewhat lower than budget because the actual
expense was based on a lower current value assessment for the Kincardine properties
than was used for budgeting, as a result of the resolution of the appeal in 2008.

- Ontario Capital Tax ("OCT"): The OCT is generally stable and on budget over the period
2007 - 2009, with a forecast decline in 2010 due to the scheduled reduction in the
applicable rate for the first half of 2010 and the elimination of the OCT altogether effective
July 1, 2010 (discussed in Ex. F4-T2-S1).

- Accretion: Accretion expense increases by amounts in the order of $12M per year over the period 2007 - 2009 as a result of the normal growth in the ARO due to the accrual of additional used fuel storage and disposal and waste management variable costs, as well as the normal growth of the liability due to the passage of time. Although these factors also contribute to the increase in the forecast accretion expense in 2010 over 2009, their impact is expected to be largely offset by the impact of the decrease in the ARO balance associated with Bruce recorded on January 1, 2010 (Ex. C2-T1-S2). Accretion expense is expected to continue to increase in 2011 and 2012, again at approximately $12M per year due to projected additional used fuel and waste management variable costs and the growth in the liability as a result of the passage of time. Accretion expense was approximately $13M above budget in 2007 as a result of the differences in assumptions underlying the forecast and actual amount of the ARO adjustment stemming from the 2006 ONFA Reference Plan update recorded on December 31, 2006. Accretion expense was largely on budget for 2008 and 2009.

- (Earnings) Losses on Nuclear Segregated Funds: OPG experienced significant fluctuation in the performance of the nuclear segregated funds due to capital market conditions over the period 2007 - 2009. In 2008, OPG incurred losses on the portion of the funds related to Bruce of approximately $184M compared to earnings of $194M in 2007. The losses related primarily to the Decommissioning Fund as a result of a significant reduction in global financial markets as compared to 2007, which reduced the current market value of the fund investments. The earnings on the Used Fuel Fund were not subject to the volatility of the capital markets due to the Provincial guarantee, which assures a return of 3.25 per cent plus the change in the consumer price index (Ontario) on the first 2.23 million of used fuel bundles, as described in Ex. C2-T1-S1. In 2009, the funds' performance improved significantly as compared to 2008 with Bruce-related earnings of approximately $386M. The higher earnings on the funds were due to improvements in valuation levels of global financial markets, which increased the current market value of the Decommissioning Fund. The higher earnings on the
Decommissioning Fund were partly offset by a lower return on the Used Fuel Fund due to reductions in the consumer price index (Ontario) during the first half of 2009. Both funds are forecast to grow at the ONFA target rate of return of 5.15 per cent over the 2010 - 2012 period, with the resulting higher fund asset base (net of forecast disbursements) giving rise to a higher amount of earnings each year.

- Used Fuel Storage and Disposal Costs: The variable used fuel storage and disposal costs are generally stable and on budget during the 2007 - 2009 period. The forecast increase of approximately $2M in 2010 over 2009 is primarily due to higher total cost estimates for OPG’s Used Fuel Disposal waste management program. This increase results from an increase in estimated production. The costs are expected to remain stable in 2011 as compared to 2010, but are expected to increase further by approximately $7M in 2012 mainly as a result of a higher number of anticipated used fuel bundles following the expected return to service of Bruce A, Units 1 and 2.

- Waste Management Variable Expenses: The variability in these expenses over the period 2007 - 2009 is primarily caused by the net losses of $5.6M and $1.8M attributable to the Supplemental Agreement in 2007 and 2008. The net losses in 2007 and 2008 resulted from the differences in discount rates applied in determining the cash payments from Bruce Power under the Supplemental Agreement and the discount rate applied in accruing the estimated costs to manage the refurbishment waste for accounting purposes. While the 2008 and 2009 expenses were generally on budget, the 2007 expenses were significantly above budget because the budget did not anticipate the Supplemental Agreement. The expenses are expected to decrease over the 2010 - 2012 period compared to 2008 and 2009 because the costs related to OPG-wide low and intermediate-level waste management programs allocated to each unit of waste are expected to decrease. This decrease is due to the increase in the assumed total lifecycle waste volumes for all of OPG’s nuclear facilities as a result of the decision to proceed with the definition phase of the Darlington Refurbishment project.

- Interest: Interest expense associated with Bruce assets remained largely stable and on
budget during the historical period, with successive decreases expected in 2010 and 2011 as a result of the overall forecast decline in OPG-wide non-project specific interest expense. The amount projected for 2012 is consistent with that forecast for 2011.

- Current Income Taxes: The actual and budgeted current income tax expense for the Bruce assets, when computed on a stand-alone basis using GAAP, was nil for the nine months ended December 31, 2008 and the full year 2009. Significant contributions to the nuclear segregated funds, which are deductible for income tax purposes as discussed in Ex. F4-T2-S1, were the primary driver for the tax losses Bruce had over that period. While the segregated fund contributions are forecasted to decrease over the 2010 - 2012 period resulting in positive taxable income, the losses carried forward from the 2008 - 2009 period are expected to largely offset this positive taxable income. The result is a forecast current income tax expense of nil in 2010 and 2011. For 2012, OPG forecasts a small current income tax expense of $8.6M because the losses from the 2008 - 2009 period are expected to be fully utilized by then. The continuity of the Bruce tax losses and their utilization is summarized in Ex. G2-T2-S1 Table 9.

- Future Income Taxes: The actual future income tax expense for the nine months ended December 31, 2008 was a recovery of $70.1M compared to an expense of approximately $5.3M for the year ended December 31, 2009. The variance is primarily due to the significant losses on the Bruce portion of segregated nuclear funds in 2008 and the adjustment related to the embedded derivative, as described above. The actual future income tax expense for 2008 is significantly below the budget because the budget included significantly higher than actual earnings on the funds. The 2009 actual expense was largely on budget, and is expected to continue to remain stable over the 2010 - 2012 period.

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2 To calculate the budgeted amount for April 1 to December 31, 2008, the 2008 annual forecast expense of $37.7M was reduced on a proportionate basis to produce the budgeted expense amount of $28.3M included in the revenue requirement calculation presented in Table 6.