UNDERTAKING J3.9

Undertaking

To determine the revenue requirement impact of lower "industrial standard" capitalization threshold.

Response

OPG was asked in Technical Conference question CME-007 what the impact on revenue requirement would be from a change in its capitalization threshold from $200k to $100k. In response (Technical Conference transcript page 129 starting at line 2), OPG advised that a full assessment would require a consideration of whether planned work programs and activities that fall between these amounts meet the other criteria for capitalization produced by OPG in accordance with generally accepted accounting principles (as outlined in Exhibit A2-T2-S1 Section 5.1).

This Undertaking asked OPG to assess the revenue requirement impact of a change from the current $200k project capital threshold to the "industrial standard" capitalization threshold that would have come from an informal telephone survey conducted by ScottMadden (see Transcript Volume 3 page 141 line 26 to page 142 line 3). OPG agreed to make “best efforts” to produce the notes of the telephone survey on this subject conducted by ScottMadden during the 2009 Nuclear Benchmarking Initiative.

Unfortunately, ScottMadden was unable to produce a record of the previous discussions with industry contacts.

It should be noted that in OPG’s capitalization policy, the materiality limit is secondary to the nature of the expenditure. Specifically, for capitalization eligibility, Section 5.1 requires identification of: a new asset; a significant component replacement/complete asset replacement; or rehabilitation, improvement or maintenance of an existing asset which extends the life or increases the output of the asset.

Continuing from the response to Technical Conference question CME-007, based on a high-level review, OPG is unable to identify instances in which these criteria could be met for typical work programs or activities below the materiality threshold of $200k.

OPG therefore expects no revenue requirement impact associated solely with lowering the capitalization threshold below the current $200k level, since such expenditures would not meet other OPG criteria for capitalization.