UNDERTAKING J11.4

**Undertaking**

To provide communication between the Province and OPG regarding relief from requirement to do a reference plan.

**Response**

See attached letter dated January 5, 2010 from Don Power (OPG) to Ronald Kwan (Ontario Financing Authority) (Attachment 1) and response memo dated May 26, 2010 from Serge Imbrogno (Ontario Financing Authority) to Don Power (OPG) (Attachment 2).
January 5, 2010

Mr. Ronald Kwan
Director, Electricity Finance Branch
Ontario Financing Authority
1 Dundas Street West, Suite 1400
Toronto, Ontario  M7A 1Y7

Ontario Nuclear Funds Agreement (ONFA)
- Potential Impacts from Darlington Refurbishment

Ronald,

As discussed, OPG’s management is currently assessing the potential refurbishment and continued operation of the Darlington Nuclear Generating Station (DNGS), Units 1 to 4. In addition to the impacts on future revenues, expenses, asset retirement obligations, etc., there is the potential impact to the ONFA Funds Contributions during the current 5-year agreement period ending in 2011, if the required changes to fund contribution levels are deemed to be a triggering event under the terms of the ONFA.

In accordance with Section 5.1.2. of the ONFA, OPG is required to notify the Province of Ontario should a material change occur. Material changes include: (a) any reduction(s) in the remaining operating period of any nuclear station that would result in a change in the contribution payment schedules; (b) a change in circumstance or assumption that would result in an increase in either the Used Fuel Balance to Complete Cost Estimate or the Decommissioning Balance to Complete Cost Estimate from the approved ONFA Reference Plan. The percentage change that triggers the need for a new Reference Plan is to be agreed to between OPG and the Province.

As of November 2009, OPG has recommended to the Board of Directors that the Darlington Refurbishment project be approved to move to the definition phase of the project, and the Board of Directors has endorsed that recommendation. Should the Darlington Refurbishment project proceed, OPG expects the units to be operated for an additional 30 calendar years following completion of refurbishment. Based on the current schedule for Darlington Refurbishment, OPG expects that the new average out-of-service dates for these units will be shifted to 2051. On this basis, OPG plans to move the end-of-service date for Darlington, for depreciation purposes, to 2051 effective January 2010.

OPG is also proposing to move the end-of-service dates for the purposes of the ONFA to 2051, resulting in an increase in the present value of the total projected liability for Used Fuel Management and Low & Intermediate Level Waste Disposal, and a decrease in the present value of the total projected liability for decommissioning. OPG’s current assessment indicates estimated impacts of $652 million (9.7%) increase to the Used Fuel Balance to Complete Cost Estimate and $300 million (5.5%) decrease in the Decommissioning Balance.
to Complete Cost Estimate. The increase in the Used Fuel Balance to Complete Cost Estimate results from a forecast of a greater number of fuel bundles being generated by the Darlington station over its extended life. The decrease in the Decommissioning Balance to Complete Cost Estimate results from the effect on the present value of an effective deferral of the decommissioning date of the station by approximately 30 calendar years. The net impact on ONFA liabilities is an increase of $352 million (2.9%).

As you are aware, OPG is currently in the process of reviewing all of its cost estimates and other assumptions regarding the nuclear waste management and decommissioning liabilities in preparation for the 2012 ONFA Reference Plan update. The updated plan is expected to be sent to the Government for review in mid-2011.

Also, as discussed, OPG is of the opinion that a revision to the current ONFA Reference Plan is not required at this time as a result of OPG’s decision to proceed to the definition phase of the Darlington Refurbishment project. OPG believes this to be the case because the impacts on the Used Fuel Balance to Complete Estimate and the Decommissioning Balance to Complete Estimate somewhat offset each other (net impact is an increase of $352 million or 2.9%). While OPG is in the process of revising and updating all of its nuclear waste management and decommissioning cost estimates in preparation for the 2012 ONFA Reference Plan update, it would likely take until early 2011 to finalize any updates to the current 2007 Reference Plan for the change to the Darlington planning assumptions, and the resulting updates to contribution levels to the Used Fuel Fund and the Decommissioning Fund - all of which can be accommodated at the time of the 2012 ONFA Reference Plan update.

Thus, OPG proposes that its changed planning assumptions on the Darlington station not be considered a triggering event under the ONFA at this time. With the preparation of the next ONFA Reference Plan update currently underway, OPG would like to suggest that the impacts of Darlington refurbishment be addressed through the regular ONFA update process.

Please advise of the appropriate process to obtain the Province of Ontario concurrence with the recommendation that the change to Darlington planning assumptions is not to be considered a triggering event with respect to the ONFA.

Regards,

Don Power
Vice President
Corporate Business & Investment Planning

c: M. Hung - Nuclear Waste Management Organization
    D. Hanbridge - SVP & Chief Financial Officer
    A. Barrett - VP, Regulatory Affairs & Corporate Strategy
    C. Sidford - VP, Treasurer
    C. King - VP, Corporate Secretary
    R. Leavitt - VP, Nuclear Finance
    J. Mauti - Director, Nuclear Finance
May 26, 2010

MEMORANDUM TO: Don Power
Vice President
Corporate Business and Investment Planning
Ontario Power Generation, Inc.

FROM: Serge Imbrogno
Assistant Deputy Minister

SUBJECT: Notice of Material Change under ONFA arising from the Planned Darlington Refurbishment

In accordance with section 5.1.2 of the Ontario Nuclear Funds Agreement (ONFA), Ontario Power Generation (OPG) provided written notice on January 5, 2010, to the Province about a material change arising from a change in circumstance or assumption about Darlington Nuclear Generating Station (DNGS). The OPG Board of Directors has approved proceeding to the preliminary planning phase for the Darlington Refurbishment Project.

A Darlington refurbishment would extend the planned service lives of the four units at the Darlington Nuclear Station, and increase the estimated future used fuel waste generated, thereby increasing the total cost of used fuel management. OPG has estimated this would result in an increase in the Used Fuel Balance to Complete Cost Estimate reflected in the current Approved 2006 ONFA Reference Plan by approximately 10 per cent.

This estimated increase is above the five per cent threshold level in section 5.1.2 of ONFA that constitutes a material change, in the absence of an alternative threshold level agreed upon between OPG and the Province.

Incremental used fuel waste from refurbished Darlington units would be generated many years in the future. In addition, OPG already has well underway the preparation of a comprehensive update to the Reference Plan, which it anticipates will be proposed to the Province for approval in mid-2011. Therefore, pursuant to section 14.15 of ONFA, the Province hereby waives the requirement in section 5.1.2 of ONFA that OPG prepare a new or amended Reference Plan as soon as practically possible in respect of this material change.
This waiver shall not be considered as a general waiver for OPG's requirement to comply with section 5.1.2 of ONFA. This waiver applies only with respect to the particular estimated increase in the Used Fuel Balance to Complete Cost Estimate provided in a letter from OPG to the OFA, dated January 5, 2010, as related to the particular and unique circumstances of the planned Darlington refurbishment at this time.

Sincerely,

[Signature]

Serge Imbrogno

Copy: David Brennan
Caryl Silver
Ronald Kwan