CLEARANCE OF DEFERRAL AND VARIANCE ACCOUNTS

1.0 PURPOSE

This evidence describes OPG's proposed approach for clearing the audited December 31, 2017 balances in the company's deferral and variance accounts ("D&V accounts").

2.0 SUMMARY

OPG requests clearance of the audited December 31, 2017 balances in the D&V accounts, less amortization amounts previously-approved by the OEB in EB-2016-0152, together with the income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, through new payment riders for the January 1, 2019 to December 31, 2021 period. As outlined in Ex. H1-1-1, OPG proposes to dispose of balances in all D&V accounts not otherwise approved for recovery in the EB-2016-0152 Payment Amounts Order ("EB-2016-0152 PAO"), with the exception of the Capacity Refurbishment Variance Account and the Fitness for Duty Deferral Account. OPG is proposing to defer the clearance of the Capacity Refurbishment Variance Account and the Fitness for Duty Deferral Account for the reasons set out in Ex. H1-1-1, sections 5.6 and 5.19, respectively. Audited balances at December 31, 2017 are presented at Ex. H1-1-1 Table 1 and discussed at Ex. H1-1-1. The income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account are discussed in Ex. F1-1-1, sections 3.1 and 4.0.

The EB-2016-0152 PAO dated March 29, 2018 authorized a hydroelectric payment rider (Hydroelectric Payment Rider A) for the recovery of approved D&V account balances for the hydroelectric facilities.[1] The amount approved for disposition in EB-2016-0152 is a debit of $86.8M,[2] reflecting recovery of audited December 31, 2015 balances less amortization of amounts approved in EB-2014-0370. Hydroelectric Payment Rider A is effective March 1, 2018 to December 31, 2020.

[1] EB-2016-0152 PAO, p. 11.
[2] EB-2016-0152 PAO, Appendix D, col. h), line 12.

The EB-2016-0152 PAO also authorized a nuclear payment rider (Nuclear Payment Rider A) for the recovery of approved D&V account balances for the nuclear facilities. [3] The amount approved for disposition in EB-2016-0152 is a debit of $217.9M,[4] reflecting recovery of audited December 31, 2015 balances less amortization of amounts approved in EB-2014-0370. Nuclear Payment Rider A is effective March 1, 2018 to December 31, 2020.

Section 3.0 describes the methodology for the proposed recovery of the balances in the D&V accounts and the income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account. Section 4.0 describes the proposed recovery periods for the regulated hydroelectric and nuclear D&V account balances. Section 5.0 describes the payment riders proposed for the recovery of these balances.

3.0 METHODOLOGY

OPG proposes to calculate new, separate hydroelectric and nuclear payment riders (Hydroelectric Payment Rider C and Nuclear Payment Rider C) for the period from January 1, 2019 to December 31, 2021 in the form of $/MWh payment riders consistent with the form of payment rider approved in decisions and payment amounts orders issued in EB-2016-0152, EB-2014-0370, EB-2013-0321, EB-2012-0002 and EB-2010-0008**.**

The approach OPG has used to calculate the proposed hydroelectric and nuclear payment riders is consistent with the methodology previously approved by the OEB. Under this approach, OPG calculates each rider separately using the following three steps. First, a recovery period is determined for each account (or other approved amount[5]) to be cleared. Second, based on each account's, or other approved amount's, recovery period and the audited balance in the account less any amortization already approved, the amount to be amortized in each year of the period is determined. Finally, the total amount to be amortized

[3] EB-2016-0152 PAO, p. 12.
[4] EB-2016-0152 PAO, Appendix E, col. h), line 16.
[5] For example, the EB-2016-0152 PAO approved riders for the recovery of hydroelectric and nuclear interim period revenue shortfall amounts related to the period between the effective date and the implementation date of approved payment amounts. In this Application, the proposed other approved amount is the income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

each year is divided by annual energy production volumes to determine the payment riders in each year.

OPG proposes to calculate Hydroelectric Payment Rider C using the annualized OEB-approved hydroelectric production forecast, consistent with the production used to determine OPG's weighted average payment amounts under O. Reg. 53/05 and customer bill impacts in EB-2016-0152.[6] Similarly, OPG proposes to calculate the Nuclear Payment Rider C using the nuclear production forecast approved in EB-2016-0152.[7] Any differences between the production amounts used to set the payment amount riders and actual production will continue to be addressed through entries into the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account and Nuclear Deferral and Variance Over/Under Recovery Variance Account.

4.0 RECOVERY PERIODS

With the exception of the Bruce Lease Net Revenues Variance Account – Non-Derivative Sub-Account, the Pension & OPEB Cash Versus Accrual Differential Deferral Account, and the Pension and OPEB Cost Variance Account, discussed below, OPG proposes to recover the D&V account balances over the three-year period January 1, 2019 to December 31, 2021.

A three-year recovery period would be consistent with the recovery period for D&V account balances and interim period revenue shortfall approved by the OEB in EB-2016-0152 (i.e., 34 months from March 1, 2018 to December 31, 2020). A three-year recovery period also matches the remaining portion of the current five-year rate-setting term ending on December 31, 2021, reducing complexity in future rate-setting periods by reducing the impact of previously approved D&V account recoveries.

To mitigate customer bill impacts, OPG proposes a longer recovery period for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Bruce Lease Net Revenues

[6] The average of the 2014 and 2015 OEB-approved hydroelectric production forecast of 33TWh (EB-2016-0152 PAO, Appendix I, Table 2, note 3).
[7] EB-2016-0152 PAO, Appendix E, Table 1, line 17, note 5; and EB-2016-0152 PAO, Appendix F, Table 2, lines 9 to 11.

Variance Account – Non-Derivative Sub-Account. OPG proposes to recover these balances totalling $783M[8] over an amortization period of 8 years (96 months from January 1, 2019 to December 31, 2026). The eight-year term is consistent with prior recovery terms approved by the OEB for OPG's Pension and OPEB Cost Variance Account balances as part of settlement agreements, as it is near the mid-point of those prior approved terms of 6 and 12 years.[9, 10] The eight-year term also is consistent with the expected end of the next five-year rate-setting term (i.e., 2022 to 2026) for OPG's nuclear and hydroelectric payment amounts. As discussed in Ex. F1-1-1, OPG will incur additional income tax of approximately $205M due to the recovery of the balances in the Pension & OPEB Cash Versus Accrual Differential Deferral Account. OPG proposes to recover these income tax impacts over the same term as the balances in the Pension & OPEB Cash Versus Accrual Differential Deferral Account, with approximately $77M being recovered in the three-year period from January 1, 2019 to December 31, 2021.[11]

The recovery periods for the Pension and OPEB Cost Variance Account were approved by the OEB in prior decisions and orders, as described in the EB-2016-0152 PAO.[12] The recovery terms used by OPG in determining the payment riders proposed in this Application reflect these prior decisions and orders. Specifically, OPG proposes:

1) To clear the remaining balance in the Pension and OPEB Cost Variance Account (Future Recovery), which is to be recovered by December 31, 2024, using an amortization period of 6 years (72 months from January 1, 2019 to December 31, 2024).
2) To clear the remaining balance in the Pension and OPEB Cost Variance Account (Post 2012 Additions), which is to be recovered by June 30, 2021, using an amortization period of 2.5 years (30 months from January 1, 2019 to June 30, 2021).

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[8] Equaling the sum of Ex. H1-2-1, Table 1, line 10, Ex. H1-2-1, Table 2, lines 8, 9 and 13; which total excludes the income tax impacts associated with the recovery of the Pension & OPEB Cash Versus Accrual Differential Deferral Account.
[9] Pension and OPEB Cost Variance Account – Future Recovery was approved for recovery over 12 years in EB-2012-0002. Pension and OPEB Cost Variance Account – Post 2012 Additions was approved for recovery over 6 years in EB-2014-0370.
[10] The December 31, 2012 non-derivative balance of the Bruce Lease Net Revenues Variance Account was approved for recovery over a longer period of four years in EB-2012-0002, as part of a settlement agreement.
[11] Ex. H1-2-1 Table 1, line 14, col. (h) (hydroelectric), plus Table 2, line 20, col. (h) (nuclear).
[12] EB-2016-0152 PAO, Appendix G, p. 11.

5.0 PAYMENT RIDERS

The calculation of the Hydroelectric Payment Rider C is shown in Ex. H1-2-1 Table 1, while the Nuclear Payment Rider C calculation is shown in Ex. H1-2-1 Table 2. For both tables, the 2017 audited D&V account balances (col. a) less the approved amortization in EB-2016-0152 (col. b) and amounts deferred to future applications (col. f) results in the balance available for recovery (col. e). The recovery terms described in section 4.0 (Tables 1 and 2 col. (f)) are used to determine the amount to be amortized in each year of the 2019 to 2021 period for which D&V account riders are proposed, as discussed in section 3.0. Remaining unamortized balances as at December 31, 2021 are also provided (col. k) to illustrate full disposition of balances available for recovery.

The proposed Hydroelectric Payment Rider C is calculated using the amounts available for recovery in each year, comprising the total of hydroelectric D&V account amortizations in the year and the income tax impacts associated with the recovery of the hydroelectric component of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, divided by the approved production forecast for the regulated hydroelectric facilities, as set out in section 3.0. The resulting rider in effect from January 1, 2019 to December 31, 2020 would be $1.65/MWh, and the rider from January 1, 2021 to December 31, 2021 would be $1.56/MWh, as shown in Table 1.

The proposed Nuclear Payment Rider C is calculated using the amounts available for recovery in each year, comprising the total of nuclear D&V account amortizations in the year and the income tax impacts associated with the recovery of the nuclear component of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, divided by the OEB-approved production forecast for the nuclear facilities, as set out in section 3.0. The resulting riders would be as follows and as show in Ex. H1-2-1, Table 2:

- From January 1, 2019 to December 31, 2019, the rider in effect would be $4.55/MWh.
- From January 1, 2020 to December 31, 2020, the rider in effect would be $4.76/MWh.
- From January 1, 2021 to December 31, 2021, the rider in effect would be $3.43/MWh.