RE: OPG Nuclear Funds

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Nalasco, Adrian (ENERGY)" <adrian.nalasco@ontario.ca>
Date: Mon, 06 Feb 2017 18:39:31 -0500

Hi Adrian.
This is an interesting idea. We'll consider it and get back to you. In the meantime, a couple of quick considerations:

- The legal terms of the UFF will confirm whether the amounts would actually be available to use for the suggested purpose (vs. addressing other unfunded liabilities that the entity may have to address)
- Could the OEB intervene w.r.t. the use of such funds that were collected through rates?
- Acknowledge that the use of the excess which appears to be accessible to the Province would impact the taxpayer (loss) to the benefit of the ratepayer, but this is likely appropriate since it is the result of rates paid in the past.
- Need to confirm the impact on the Province's b/s and statement of operations (depending on any adjustments we made on consolidation)
- Is there a risk of challenge to the assumptions used to calc the over-funded amount? (i.e. if more conservative assumptions were used the amount would be lower?)
- I assume that the liability for the UFF was updated with the recent ONFA update? As such the calc of the over-funding is a reliable estimate?

We can chat further on this item tomorrow. Thanks for the interesting brain tease ☺

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From: Nalasco, Adrian (ENERGY)
Sent: February-06-17 6:08 PM
To: Petsche, Nadine (TBS)
Subject: OPG Nuclear Funds

Nadine,

As you know, the discussions around rate mitigation options are ongoing at the Ministry, and new ideas are always floating around. The following came across my desk and I was hoping to get a quick confirmation of the accounting implications:

- The Province would access the current surplus in OPG's Used Fuel Fund and direct it to rate mitigation. See below for OPG's financial statement disclosure with respect to its legal right to the surplus per ONFA.

My first impression is the Province would simply be converting a receivable ("Due to Province") into cash – i.e., no impact on the Province's P/L – and then directing the money to rate mitigation – i.e., a fiscal expenditure which impacts the Province's P/L. So in the end, there is still a dollar-for-dollar fiscal impact in the current year.

Is that correct? Would there be any other details to take into consideration on the accounting side?

Thanks.

Used Fuel Fund

OPG is responsible for the risk and liability of cost increases for used fuel waste management under the ONFA, subject to specified graduated liability thresholds, which limit OPG's total financial exposure for the first 2.23 million nuclear used fuel bundles at approximately $15 billion in present value dollars as at December 31, 2016. The graduated liability thresholds do not apply to incremental used fuel bundles beyond 2.23 million.

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario CPI, as defined by ONFA, for funding related to the first 2.23 million used fuel bundles, ("committed return"). OPG recognizes the committed return on the Used Fuel Fund as earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return and the actual market return determined based on the fair value of the fund assets related to the first 2.23 million used fuel bundles is recorded as due to or due from the Province. The amount due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the consolidated balance sheet date. As prescribed under the ONFA, OPG's contributions for fuel bundles in excess of 2.23 million are not subject to the Province's guaranteed rate of return, and earn a return based on changes in the market value of the assets of the Used Fuel Fund.

Under the ONFA, if there is a surplus in the Used Fuel Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 110 percent funded, the Province, subject to any Applicable Law prohibiting it from doing so, shall have the right at any time to access the excess amount greater than 110 percent. Upon termination of the Used Fuel Fund, the Province is entitled to any surplus above the100 percent funded threshold. As at December 31, 2016, the Used Fuel Fund was overfunded in accordance with the 2017 ONFA Reference Plan. As such, the fund balances are reduced by amounts due to the Province.

Nuclear Funds

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

	Fair Value	
(millions of dollars)	**2016**	**2015**
Decommissioning Fund	**8,317**	7,834
Due to Province – Decommissioning Fund	**(1,477)**	(1,285)
	6,840	6,549
Used Fuel Fund [1]	**11,082**	10,290
Due to Province – Used Fuel Fund	**(1,938)**	(1,703)
	9,144	8,587
Total Nuclear Funds	**15,984**	15,136
Less: current portion	**24**	15
Non-current Nuclear Funds	**15,960**	15,121

[1] **The Ontario NFWA Trust represented $3,688 million as at December 31, 2016 (2015 – $3,409 million) of the Used Fuel Fund on a fair value basis.**