

CME Interrogatory #1

Interrogatory

Ref: Application Section 1.0 and OPG's Decision Not to File an Application for New Payment Amounts Effective January 1, 2010

The evidence refers to OPG's decision not to file an Application for new payment amounts effective January 1, 2010. To help us understand the circumstances which prompted this decision, including the extent to which current payment amounts are estimated by OPG to be capable of supporting its estimated Hydroelectric and Nuclear Revenue Requirements for the 2010 calendar year, please provide the following information:

(a) Please provide complete copies of the presentation(s) made by OPG's management to its Board of Directors (in confidence if necessary) which lead to the decision not to apply for new payment amounts effective January 1, 2010, along with the date OPG's Directors made this decision.

(b) Produce whatever documents OPG has prepared internally to estimate its Hydroelectric and Nuclear Revenue Requirements for prescribed assets for the 2010 calendar year, including the estimates of the costs of equity and debt for 2010 compared to the costs of such items imbedded in current payment amounts and show the resulting estimated Hydroelectric and Nuclear payment amounts compared to the currently approved payment amounts.

(c) The forecast long-term risk free rate which is embedded in the 8.65% Return On Equity ("ROE") in current rates is 4.75%. Using the ROE adjustment formula outlined in the Board's Report on cost of capital and 2nd generation incentive regulation please provide the current forecast of the long-term risk free rate for 2010 as well as the resulting adjusted ROE for 2010.

(d) By what amounts do OPG's Hydroelectric and Nuclear Revenue Requirements change with every 10 basis point change in ROE?

(e) The 2008 and 2009 costs of short-term debt embedded in current payment amounts are 5.83% and 5.98% respectively. What is OPG's forecast of the cost of short-term debt for 2010 and to what extent do the Hydroelectric and Nuclear Revenue Requirements change with a 10 basis point change in the estimated cost of short-term debt?

(f) What are the long-term debt rates embedded in the current Hydroelectric and Nuclear payment amounts under the methods of calculation established by the Board in the Payment Amounts Decision dated November 3, 2008? Using these same calculation methods, what are the estimated long-term debt rates for 2010 and to what extent does a 10 basis point change in the cost of long-term debt, embedded in current payment amounts, trigger a change in the total amount of the Hydroelectric and Nuclear Revenue Requirements?

(g) What are OPG's total tax loss carry forwards as of December 31, 2008; what are the estimated tax loss carry forwards as of December 31, 2009, and to what extent are tax loss carry forwards at December 31, 2009 available to mitigate the amount of revenues OPG seeks to recover from ratepayers in 2010?

(h) Please provide evidence which will show the extent to which "Actual" and "Estimated Actual" Regulated Hydroelectric Revenue Requirement and Nuclear Revenue Requirement shown in Tables 1 and 2 of Appendix A to the Payment Amounts Order, are at variance with the total amounts and with each of the line item amounts shown in each table by adding the following columns to each table and the appropriate line item amounts in each added column:

(i) Following the column in each table entitled "Board Approved" for the period April 1 to December 31, 2008, add a column entitled "Actual";

(ii) Following the column in each table entitled "Board Approved" for the period January 1 to December 31, 2009, add a column entitled "Estimated Actual"; and

(iii) Following the column entitled "Board Approved" in the section of each table entitled "Total", add a column entitled "Estimated Actual" and include the appropriate amounts in those additional columns for each of the line items in each table.

(iv) Please briefly explain the reason for any major variances between Board Approved amounts and Actual or Estimated Actual amounts for each line item.

(i) Please expand Table 4b in Appendix A of the Payments Order to add a column showing Actual Costs of Capital and Actual Common Equity Return for the period ending December 31, 2008.

(j) Please expand Table 5b in Appendix A of the Payments Order to add an "Estimated Actual" column and show Estimated Actual Common Equity Return for the period ending December 31, 2009.

Response

These questions are not relevant to OPG's Accounting Order Application which is the subject of this proceeding. OPG's Application does not request any changes to current payment amounts or payment amount riders nor does it seek approval or disposition of any new variance and deferral account balances. In the current application, OPG has applied to:

- Continue amortization of the approved December 31, 2007 balances in the nuclear variance and deferral accounts and continue Nuclear Payment Rider A to allow recovery of these balances.
- Establish a Nuclear Variance and Deferral Over/Under Recovery Variance Account.
- Establish the basis upon which entries will be recorded in the various deferral and variance accounts after December 31, 2009.

1 CME Interrogatory #1 relates to OPG's decision not to seek new payment amounts
2 effective January 1, 2010 and the estimated 2010 revenue requirement and revenue
3 sufficiency/ deficiency that might have been included in such an application, had OPG
4 chosen to file one. This information is not required to resolve OPG's current application.
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6 A further indication of the lack of connection between future revenue requirement and
7 OPG's Application is provided by the OEB's recent consultation on the review of deferral
8 and variance account balances of electric distribution and natural gas utilities. Relevant
9 considerations governing the disposition of account balances were one of the main
10 issues in this consultation. OPG notes that Board Staff did not identify future revenue
11 requirement as a relevant consideration. If future revenue requirement is not a
12 consideration when determining the disposition of account balances, OPG fails to see
13 how it can be a relevant issue in OPG's current application.

CME Interrogatory #2

Interrogatory

Ref: Application Section 3.0, Pages 4-6 - Continuation of Nuclear Variance and Deferral Account Rider A

The evidence lists the approved balances in the five deferral accounts that give rise to Nuclear Payment Rider A of \$2.00/MWh. The evidence indicates that additional amounts were recorded in these accounts between January 1, 2008 and March 31, 2009 which are not part of this Application. As well, the collection of deferral account balances using Rate Riders based on production forecasts will leave an unrecovered deferral account deficiency when actual production falls below forecast production. To help us understand the magnitude of the likely amounts that are being carried forward for disposition later with respect to Nuclear Payment Rider A, please provide the following information:

(a) What is the amount recorded in each of the five deferral accounts for the period January 1 to March 31, 2008.

(b) To what extent did Nuclear production between April 1 and December 31, 2008 vary from forecast and to what extent is Nuclear production between January 1 and December 31, 2009 expected to vary from forecast.

(c) Based on OPG's production forecasts for 2010, what is OPG's current estimate of the extent to which Rider A will be insufficient to recover the balances in the Nuclear deferral accounts it covers by the expiry date of the amortization periods applicable to each of these accounts.

Response

(a) The five accounts referred to in section 3, page 4 of the Accounting Order Application include two variance accounts and three deferral accounts. The amounts recorded in each of these five accounts for the period January 1 to March 31, 2008 are as follows:

	<u>\$M</u>		
	<u>Transactions</u>	<u>Interest</u>	<u>Total</u>
Ancillary Services Net Revenue Variance Account - Nuclear	(0.2)	0.0	(0.2)
Transmission Outages and Restrictions Variance Account	0.0	0.0	0.0
Pickering A Return to Service Deferral Account	(24.1)	2.6	(21.5)
Nuclear Liability Deferral Account	31.3	2.1	33.4
Nuclear Development Deferral Account, Transition	3.8	0.2	4.0
	<u>10.8</u>	<u>4.9</u>	<u>15.7</u>

(b) Nuclear production variances are provided below. The forecast production values are those approved by the OEB in EB-2007-0905. Actual production amounts are used from April 1, 2008 to June 30, 2009, and projected production is used from July 1 to December 31, 2009.

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	TWh		
	Actual /		
	<u>Projected</u>	<u>Forecast</u>	<u>Variance</u>
2008 April - December	35.0	38.4	(3.4)
2009 January - December	47.4	49.9	(2.5)

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(c) Based on OPG's projected production for 2010, the Rider A shortfall over 2010 is estimated at \$7.6M, as detailed below. The forecast is constructed from the OEB-approved 2009 monthly forecasts for January, February, and March, and an average of 2008 and 2009 forecast values from April through December.

	TWh			
	<u>Projected</u>	<u>Forecast</u>	<u>Variance</u>	
2010 January - December	46.7	50.5	(3.8)	* \$2.00/MWh = \$(7.6)M

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See response to Board Staff Interrogatory #2 for the balance in the Nuclear Variance and Deferral Over/Under Recovery Variance Account as at December 31, 2010, which represents the projected shortfall in recovery of the approved amortization amounts.

CME Interrogatory #3

Interrogatory

Ref: Application Section 3.0, Page 5, Lines 27-30 and Section 4.0, Page 6, Lines 7-28 - Establishment of a Nuclear Variance and Deferral Over/Under Recovery Variance Account

OPG asks the Board to approve a new deferral account to cover the extent to which its recoveries under Nuclear Payment Rider A and Rider C, based on production forecasts, either over-recover or under-recover deferral account amounts because actual Nuclear production deviates from forecast production. To help us understand the magnitude of amounts being carried forward for disposition later, please provide the following information:

(a) Please provide a complete list of the specific deferral accounts and deferral account balances currently being collected by way of Rider A and Rider C to which OPG's proposal is intended to apply.

(b) Based on actual Nuclear production variances from forecast to date and those expected to occur to December 31, 2009, what are OPG's current estimates of amounts that are likely to be carried forward for future disposition in each of the deferral accounts listed above?

Response

(a) The specific accounts and their balances which OPG is currently collecting by way of Rider A and Rider C are:

	Dec 2007 Balance (\$M)
Pickering A Return to Service Deferral Account	183.8
Nuclear Liability Deferral Account	130.5
Nuclear Development Deferral Account, Transition	11.7
Ancillary Services Net Revenue Variance Account - Nuclear	1.6
Transmission Outages and Restrictions Variance Account	(1.7)
	325.9

Note: amounts to be recovered are based on straight-line recovery over 33 months, except the PARTS deferral account which is over 45 months.

(b) Based on actual Nuclear production variances to date and those expected to occur to December 31, 2009, OPG expects to carry forward \$158.2M for future recovery in aggregate for all five accounts (\$149.7M represents the amount remaining to be recovered from the approved 2007 balance after 2009 plus \$8.5M in the Nuclear Variance and Deferral Over/Under Recovery Variance Account).

- 1 Using the production variances as provided in part b) of CME Interrogatory #2, the
 2 expected Rider A and Rider C shortfalls that would need to be recovered in the next
 3 payment amounts application totals \$8.5M, excluding interest (see details below).

	Actual/Projected Production Variance (TWh)	Rider A \$2.00/MWh	Rider C \$1.23/MWh	Total (\$M)
Apr-Dec 2008	(3.4)	(0.2)	(0.1)*	(0.3)
2009	<u>(2.5)</u>	<u>(5.1)</u>	<u>(3.1)</u>	<u>(8.2)</u>
Total	(5.9)	(5.3)	(3.2)	(8.5)

- 4 * For Riders A and C, the shortfall in 2008 is calculated using only the December 2008
 5 production variance.

CME Interrogatory #4

Interrogatory

Ref: Application Section 5.0 and Appendix F of Payment Amounts Order

In the evidence proposals are made for methods of continuing to record entries in variance and deferral accounts after December 31, 2009 with respect to a number of deferral and variance accounts which were established effective April 1, 2008. To help us better understand the implications of these proposals, please provide the following information with respect to these deferral and variance accounts:

(a) Provide a table which lists each of the accounts in Appendix F and show the debit or credit amount recorded in each of the accounts at December 31, 2008 and currently.

(b) If possible, provide December 31, 2009 estimates of the debit or credit balances in each of these deferral and variance accounts.

(c) Is OPG assuming that each of these deferral accounts remains in force beyond December 31, 2009 or is OPG seeking, in this application, Board approval for a continuance of the accounts for the period January 1 to December 31, 2010?

(d) What is the estimated cumulative amount for which OPG would be at risk in 2010 if none of the deferral and variance accounts listed in Appendix F were continued beyond December 31, 2009?

(e) Is the "pivot point" which OPG proposes for variance accounts for 2010 likely to lead to materially increasing debit balances in these accounts or will current debit balances in these accounts tend to decline if OPG's proposals are approved?

Response

(a) See response to Board Staff Interrogatory #2 for the actual account balances (debit or credit) for the periods ending December 31, 2008 and June 30, 2009.

(b) See response to Board Staff Interrogatory #2 for the estimated account balances (debit or credit) for the period ending December 31, 2009.

(c) As per the EB-2007-0905 Payment Amounts Order, there are no end dates on the approved variance and deferral accounts and therefore each of the accounts remains in force beyond December 31, 2009.

(d) See response to Board Staff Interrogatory #2 and part (c) above.

(e) See response to Board Staff Interrogatory #2 for projected changes in account balances in 2010. These balances were derived using the reference values proposed by OPG for measuring variances in 2010.

CME Interrogatory #5

Interrogatory

Ref: Relief Requested by OPG - Ratepayer Protection Conditions

As a condition to obtaining the relief it seeks, will OPG agree to the establishment of an asymmetric Earnings Sharing Mechanism ("ESM") which will require it to refund to ratepayers the following:

(a) Any amount OPG earns in 2010 which exceeds the ROE for 2010 established in accordance with the adjustment mechanism approved by the Board in its November 3, 2008 Decision;

(b) Any further amounts for tax loss carry forwards at December 31, 2009 which the Board determines, in OPG's next application, should be allocated to OPG's 2010 Hydroelectric and Nuclear Revenue Requirements for OPG's prescribed assets.

Response

No. The relief sought by OPG is appropriate without the conditions requested.