BORDEN
LADNER
GERVAIS

Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
World Exchange Plaza
100 Queen Street, Suite 1100
Ottawa ON K1P 1J9
tel.: (613) 237-5160 fax: (613) 230-8842
www.blgcanada.com

PETER C.P. THOMPSON, Q.C.
direct tel.: (613) 787-3528
e-mail: pthompson@blgcanada.com

By Electronic Filing and By E-mail

July 29, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto ON M4P 1E4

Dear Ms Walli,

Ontario Power Generation ("OPG")
2011-2012 Payment Amounts Application
Board File No.: EB-2010-0008
Our File No.: 339583-000064

Please find attached the Interrogatories of our client, Canadian Manufacturers & Exporters ("CME"). Paper copies are being sent as required. We have attempted to avoid duplicating questions already asked of OPG by Board Staff and Green Energy Coalition ("GEC").

Yours very truly,

Peter C.P. Thompson, Q.C.
PCT/kt
Encl.
c. OPG
Interested Parties
Paul Clipsham (CME)

OTT01\4136863\1

ONTARIO POWER GENERATION INC.
2011-2012 PAYMENT AMOUNTS FOR PRESCRIBED GENERATING FACILITIES

INTERROGATORIES OF CANADIAN MANUFACTURERS & EXPORTERS ("CME")

Overall Bill Impacts on Consumers

Issue 1.3

References: Exhibit A, Tab 3, Schedule 1, page 3
Exhibit F4, Tab 4, Schedule 1, pages 4 and 5
Exhibit I, Tab 1, Schedule 2

Questions:

1. Many factors influence the total bill for electricity that consumers pay. CME is interested in obtaining the information that OPG, as a government-owned entity, is aware of and can provide in order to help consumers better understand the likely impacts on the total electricity bill charged to each typical or average residential, general service and large volume electricity consumer over the five-year period 2010 to 2014 of OPG's spending plans and the concurrent spending plans of other government-owned entities In the context of this preamble, please provide the following information:

   (a) Please describe the extent to which OPG works with the Minister of Energy and Infrastructure ("MEI") and other government-owned entities, including the Ontario Power Authority ("OPA"), the Independent Electricity System Operator ("IESO"), Hydro One Networks Inc. ("Hydro One") and other large government-owned distributors such as those owned by the cities of Toronto, Ottawa and other large centres in Ontario when developing its ongoing five-year business plans.

   (b) Is OPG aware of any estimates developed by the MEI, OPA, IESO, Hydro One and any other municipal government-owned entities that show the year-by-year impacts that their combined activities are likely to have on the total electricity price paid by each of the following types of customer:

      i) a typical or average residential consumer;

      ii) a typical or average general service consumer; and

      iii) a typical or average large volume consumer.

(c) If the answer to the previous question is "yes", then please describe these materials and either produce copies or direct us to an information source where we can obtain copies of these estimates.

2. In a speech delivered on May 6, 2010, the OEB Vice-Chair, Cynthia Chaplin, indicated that the Board is aware of total bill impacts on electricity consumers.

(a) Is OPG aware of any estimates having been done by the Ontario Energy Board ("OEB") of the total electricity price being paid by either one or more of a typical or average residential, general service, or large volume consumer. If so, then please describe the analysis and produce copies or direct us to an information source where we can obtain copies of these estimates.

3. Exhibit I, Tab 1, Schedule 2, OPG provides an illustrative example of the impact that the proposed increase in payment amounts and any payment riders will have on a typical residential electricity consumer using 800 kWh per month. The analysis uses the average electricity distributor bill information provided on the OEB's website.

(a) Please provide OPG's estimate, in dollars per MWh, of the average total "all in" electricity price that is currently being paid by each of the following:

i) a typical or average residential electricity consumer;

ii) a typical or average general service electricity consumer; and

iii) a typical or average large volume electricity consumer.

and explain how the amount has been derived in each case.

(b) Bills to electricity consumers are divided into different categories. For example, residential electricity bills are divided into the following five categories of charges, namely:

i) Electricity;

ii) Delivery;

iii) Regulatory;

iv) Debt Retirement Charge; and

v) Taxes.

Please provide samples of the forms of bills that are rendered by a typical electricity distribution utility to each of the following types of consumers:

i) residential consumers;

ii) general service consumers; and

iii) large volume consumers

and indicate how charges in each of the bills to general service and large volume consumers are categorized.

(c) CME understands that the "Electricity" line in the bill that a residential consumer receives includes a number of items including, for example, LDC conservation costs; hydroelectricity costs; costs associated with wind and solar projects, including renewable energy standard offer program ("RESOP") contracts and wind and hydro negotiated contracts; Fee in Tariff ("FIT") contracts; and the costs for electricity generated by Nuclear, gas-combined heat and power, and gas-combined cycle facilities. CME understands that the "Delivery" line in the bill includes transmission and distribution charges. CME understands that "Regulatory" costs include a number of items, and "Taxes" include GST, prior to July 1, 2010, and HST, after July 1, 2010.

i) Please provide a complete list of all items included in the electricity bills to consumers for each of the five categories of charges cited above, namely "Electricity", "Delivery", "Regulatory", "Debt Retirement" and "Taxes".

(d) Please elaborate upon the description of the Global Adjustment Mechanism ("GAM") provided at Exhibit F4, Tab 4, Schedule 1, pages 3 and 4, and provide a complete list of its component parts.

(e) Please indicate where, within the five categories of costs described above, namely, Electricity, Delivery, Regulatory, Debt Retirement and Taxes, the components of the GAM are to be found, and indicate whether the format of bills charged to general service and large volume customers displays the components of GAM in a manner that is different from its presentation in the bills to residential consumers.

4. The evidence at Exhibit D1-1-2 pertaining to the Niagara Tunnel Project refers to the impact OPG's spending is likely to have on the future price for Regulated Hydroelectric generation. The evidence indicates that this price will be a Levelized Unit Energy Cost ("LUEC") of 6.8¢ per kWh as of December 2013. Similarly, the evidence at Exhibit A, Tab 3, Schedule 1, page 8 and Exhibit D2, Tab 2, Schedule 1, page 5 indicate that the future price of Nuclear generation is likely to be a LUEC of between 6¢ and 8¢ per kWh. In the context of this information, please respond to the following information:

(a) Is the future price for Regulated Hydroelectric generation expected to increase to about $68 per MWh by December 2013?

(b) When is the future price for Nuclear generation expected to increase to between $60 and $80 per MWh?

(c) What is the payment amount for Regulated Hydroelectric generation by OPG likely to be at the end of 2014?

(d) What is the payment amount for Nuclear generation by OPG likely to be at the end of 2014?

5. The evidence at Exhibit F4, Tab 4, Schedule 1, pages 3 and 4 and Exhibit H1, Tab 3, Schedule 1, page 9 indicate that OPG is aware of the current "depressed" market price of electricity, as well as the influence that the transition to more and more renewable energy sources is likely to have on that market price.

   (a) What is OPG's estimate of the current market price?

   (b) Apart from changes in the market price, what other impacts on the various line items in the electricity bill is OPG expecting, over the period 2010 to 2014, as a result of the transition to more and more renewable energy sources that displace less expensive Hydroelectric and/or Nuclear generation? In what line items of the bill are those impacts likely to appear?

6. Are OPG's Hydroelectric and Nuclear spending plans, over the period 2010 to 2014 likely to prompt a need for incremental transmission or distribution infrastructure? If so, then what are the estimated costs of such infrastructure investments and their likely impact on the "Delivery" line of the bill to consumers?

7. Has OPG considered the impact of the combined effect of its spending plans and the plans of others that have an impact on the total electricity bill on the need for incremental transmission and distribution infrastructure over the period 2010 to 2014? If so, what are the high-level incremental transmission and distribution infrastructure costs and bill impacts over the period 2010 to 2014 related to that transition?

8. What information can OPG provide about the impact, over the period 2010 to 2014, of *Green Energy Act* initiatives, such as the Smart Grid, on total bills consumers will be expected to pay and in what line item(s) of the bill are these impacts likely to appear?

9. Please describe and produce all information OPG has in its possession pertaining to changes that are likely to occur, in the period 2010 to 2014, that will affect the GAM and provide an estimate of the amount OPG expects GAM to increase over the period 2010 to 2014.

10. The Board's Distribution Rate Handbook implies that consumers cannot be expected to tolerate an average annual total bill increase in excess of 10%. Hydro One had planned to file its application for increases in transmission rates on or about April 1, 2010. On March 29, 2010, OPG announced its plan to submit an application to the OEB in April and began stakeholder sessions. Hydro One did not file its application for transmission rate increases on or about April 1, 2010 as initially planned. On May 6, 2010, an article appeared in the *Globe and Mail*. The article notes the magnitude of the increases being requested by Hydro One and OPG. The article suggests that the government considered the combined bill impacts of the pending applications of Hydro One and OPG. On May 26, 2010, OPG announced it was proceeding with a lower rate application to the OEB. In an article appearing in *The Toronto Star* on May 26, 2010, the article indicates that OPG reduced its proposed increase by 32% and indicates that spokesperson Ted Gruetzner suggested that OPG will not increase its rates to recover what were in effect tax overpayments made in previous years. In its first payment amounts application, OPG proposed mitigation related to tax losses in an amount of $228M. In the context of these developments, please provide the following information:

(a) Produce, in confidence if necessary, all documents and other information presented to OPG's Board of Directors, including any information provided to OPG by its shareholder, that led to the decision to revise the application OPG intended to file in mid-April.

(b) Compared to the application OPG planned to file in mid-April 2010, what is the amount that OPG decided to refrain from claiming from ratepayers?

(c) What criteria were applied by OPG's Board of Directors to cause them to conclude that a portion of the amount reflected in the application that was to have been filed in mid-April should not be claimed?

(d) Assume that OPG's spending plans, in combination with the impacts of transitioning to more and more renewable energy sources, are likely to produce total bill increases for a typical or average residential consumer in an amount that exceeds, on average, 10% per year over five years. Under this assumption, does OPG have any suggestions as to what the OEB should do to constrain the total bill impacts on a typical residential customer to an amount that does not exceed, on average, 10% per year over the next five years?

11. CME is interested in determining the "headroom" that exists to enable OPG's shareholder and/or directors to refrain from claiming from ratepayers an amount that is less than the Revenue Requirement amount the Board's regulatory methodology allows. The regulatory methodology the Board has adopted for OPG produces higher payment amounts than the regulatory methodology previously applied by the government to determine those amounts. In connection with that evidence, please provide the following information:

    (a) A brief description of the material differences between the regulatory methodology the government applied previously and the regulatory methodology the Board applies.

    (b) An estimate of the test period Revenue Requirement that the regulatory method the government previously applied would produce compared to the total Revenue Requirement OPG asks the Board to approve in this application.

    (c) Any information OPG has on whether its owner, the Government of Ontario, or its Board of Directors, considered the differences in the Revenue Requirement amounts produced by the two different methodologies when determining the extent to which payment amounts requested in this application should be reduced.

12. Please provide a sample of the invoice(s) OPG renders for electricity it generates, and indicate to whom OPG sends its invoices.

Approved and Actual Revenue Requirements and Reconciliation to Financial Statements

13. In Exhibit A2, Tab 1, Schedule 1, Attachment 3, OPG presents a set of stand-alone audited annual financial statements for the prescribed facilities for the years ended December 31, 2009 and December 31, 2008. At Exhibit I, Tab 1, Schedule I, Table 2

and Table 3, OPG presents the Revenue Requirement for Regulated Hydroelectric and Nuclear for 2008 and 2009 along with comparisons of amounts for Board-approved Revenue Requirement for 2008 and 2009 for Regulated Hydroelectric and Nuclear respectively. For 2008, the actual regulated Revenue Requirement for Regulated Hydroelectric is shown at $436.2M compared to a Board-Approved Annualized amount of $667.3M. For 2009, the actual Revenue Requirement is shown at $564.3M compared to a Board-Approved amount of $666.6M. These numbers suggest that, for Hydroelectric generation on an annualized basis, OPG recovered $131.1M in 2008 and $102M in 2009, it did not actually need to meet its Actual Revenue Requirement. For Nuclear, the 2008 annualized OEB approved capital amount exceeds the Actual Revenue Requirement amount by about $4M. In 2009, the Board-Approved amount exceeds the Actual amount by about $118.2M. With respect to this evidence, please provide the following:

(a) Please explain why the Actual Revenue Requirement amounts for Hydroelectric and Nuclear are materially less than the Board-approved Revenue Requirement amounts for each of the years 2008 and 2009. Are these results reflecting mitigation and tax amounts not recovered in these years, or are these results attributable to other factors?

(b) Please segregate the financial statements shown at Exhibit A2, Tab 1, Schedule 1 for 2009 and 2008 between the Regulated Hydroelectric and the Nuclear segments of OPG's business.

(c) Please reconcile the segregated financial statements for 2008 and 2009 to the Actual Revenue Requirement presentations for 2008 and 2009 contained in Exhibit I, Tab 1, Schedule 1, Tables 2 and 3.

Rate Base, Capital Projects and Capital Budgets

Issues 2.1, 2.2, 4.2 and 4.5

References: Exhibit B1, Tab 1
Exhibits D1, D2 and D3

Questions:

14. To what extent does the test period Revenue Requirement decrease if Construction Work in Progress ("CWIP") for the Darlington Refurbishment Project is excluded from Rate Base?

15. Please provide a breakdown of the Capital Budgets for Hydroelectric and Nuclear, separately, listing, year by year beginning January 1, 2011, each of the projects that will be one year or less in duration, each of the projects that will be two years or less in duration, and each of the projects that will take more than two years to complete and put in service.

16. For those projects that will not be completed and in service by December 31, 2012, show, year by year and cumulatively, the amounts that OPG plans to spend in order to complete each of those multi-year projects.

17. Is there a CWIP amount included in the test period Revenue Requirement, but not in Rate Base, for capital expenditures being incurred in the test period with respect to projects expected to be completed, and in service on a date later than December 31, 2012? If so, what is the total CWIP amount for Hydroelectric and Nuclear projects included in the 24-month test period Revenue Requirement for such projects? How have each of the amounts been calculated; and in what line items do the CWIP amounts for such projects appear in the Revenue Requirement presentation?

Capital Structure and Cost of Capital

Issue 3.1

References: Exhibit C1, Tab 1, Schedule 1
Tables 1 to 7

Questions:

18. What is the total dollar amount for equity return that OPG seeks to recover in the 24-month test period?

19. What is the total dollar amount OPG seeks to recover in the test period Revenue Requirement (i.e. not through deferral accounts) for payments in lieu of taxes ("PILS") for the test period?

20. Based on the audited corporate financial statements for OPG as a whole, what was OPG's actual ROE for the years ending December 31, 2008 and December 31, 2009?

21. Based on the segregated financial statements provided by OPG at Exhibit A2, Tab 1, Schedule, Attachment 3, what is the indicated ROE for each of the periods ending December 31, 2008 and December 31, 2009? Please show how OPG derives the ROE for each year from these statements.

22. Please provide segregated financials for the year ending December 31, 2010 based on three month actuals and nine month forecast in a format comparable to the statements provided at Exhibit A2, Tab 1, Schedule, Attachment 3 and reconcile these segregated financial statements to the determination of 2010 forecast return on equity shown at Exhibit I1, Tab 1, Schedule 1, Table 5.

23. What amount of tax does OPG, the corporation, actually expect to pay to the Ontario Electricity Financial Corporation ("OEFC") for 2010?

Production Forecasts

Issues 5.1 and 5.2

References: Exhibit E1, Tab 1, Schedules 1 and 2

Questions:

24. At Exhibit E1, Tab 1, Schedule 1, page 5, OPG indicates that Surplus Baseload Generation ("SBG") is a condition that occurs when electricity production from hydroelectric baseload facilities is greater than Ontario demand. The evidence indicates

that during 2009 SBG was more prevalent in Ontario than it has been for many years, and that SBG is forecast to continue through the test period. In connection with this evidence, please provide the following additional information:

(a) Please describe the conditions that have given rise to the much more prevalent SBG problem and, in particular, indicate the extent to which generation from renewable generation sources such as wind and solar and/or natural gas fire generation is a cause of the problem.

(b) What conditions would need to exist to enable wind and solar and/or natural gas fire generation to be curtailed in order to assure that little or no SBG occurs in any year so that all available hydroelectric generation capacity is used throughout the entire test period?

(c) How much lower would the test period revenue deficiency be if no SBG were forecast for the test period and all available hydroelectric capacity could be used throughout the entire test period?

25. The evidence indicates that the Nuclear production forecast for 2011 is about 1.0 TWh below the forecast of 49.9 TWh approved by the Board for 2009. How much lower would the 24-month test period revenue deficiency be if the production forecast for the test period was greater by 1 TWh?

Taxes in Operating Costs and in Deferral Accounts

Issues 6.11, 10.1, 10.2 and 10.3

References: Exhibit F4, Tab 2, Schedule 1, Attachment 3
Exhibit G2, Tab 2, Schedule 1
Exhibit H1, Tab 2, Schedule 1

Questions:

26. All taxes that OPG pays are effectively paid to its owner, the Province of Ontario. All return on equity OPG earns is either paid to or attributable to its owner, the Province of Ontario. In these circumstances, please respond to the following questions:

(a) Does OPG make any effort to minimize or eliminate its tax burden? If so, then please list all of the tax reduction initiatives in which OPG engaged in each of the years 2005 to 2010, inclusive.

(b) Please list whether OPG has adopted any tax planning measures for the test period to minimize the amount of taxes it will be called upon to pay to the Province of Ontario.

(c) Please provide the names of any consultant(s) OPG uses to help it with its tax planning.

27. What amount did OPG, the corporation, actually pay to the Province of Ontario in taxes in each of the years 2005 to 2009, inclusive?

28. What amount does OPG, the corporation, actually expect to pay in taxes to the Province of Ontario in 2010, 2011 and 2012?

29. Were any amounts recovered from ratepayers for taxes during each of the years 2005 to 2009, inclusive? If so, then what amounts were recovered from ratepayers during each of those years?

30. Please indicate, year by year, the amounts for taxes in each of the years 2005 to 2009, inclusive, that OPG now seeks to recover through the Tax Loss Variance Account?

31. For each of the years 2005 to 2009, inclusive, please indicate, year by year, what further amounts for taxes, if any, OPG has either already recovered or now seeks to recover through the Bruce Lease Net Revenues Variance Account for taxes related to Bruce revenues and expenses.

32. For the years 2005 to 2009, inclusive, does the total amount for taxes in each year that OPG has either recovered or now seeks to recover from ratepayers exceed the amount for taxes actually paid by OPG, the corporation, to the Province of Ontario? If so, then what is the amount of the excess for each year and cumulatively?

33. Did the payment amounts that OPG received from ratepayers in 2010 include any amount for taxes? If so, then what is that amount?

34. What amount is OPG now seeking to recover from ratepayers for taxes in 2010 through the operation of the Tax Loss Variance Account?

35. What amount is OPG now seeking to recover from ratepayers for taxes in 2010 through the operation of the Bruce Lease Net Revenues Variance Account?

36. For the test period 2011 and 2012, what amount in the test period Revenue Requirement in each year does OPG seek to recover from ratepayers for taxes?

37. If in any year the amount of taxes OPG, the corporation, actually pays to Ontario is exceeded by the amount of taxes OPG has either already collected during that year or proposes to collect from ratepayers later through the operation of the Tax Loss Variance Account and/or the Bruce Lease Net Revenues Variance Account, then please explain how the recovery from ratepayers of amounts for taxes that exceed the actual amounts paid by the corporation will be recorded in OPG's corporate financial statements. Will the excess amounts operate to produce an incremental return on equity?

38. The *Toronto Star* article of May 26, 2010, referenced in CME Interrogatory No. 10, suggests that an OPG spokesperson indicated that OPG would not be seeking increases in rates to cover taxes related to previous years. Please clarify what the OPG spokesperson told the reporter about OPG's plan to recover taxes related to prior years, and indicate whether OPG is, in fact, not seeking to recover any portion of taxes it has calculated related to prior years.

<u>Nuclear Waste Management and Decommissioning Liabilities</u>

Issue 8.1

References: Exhibit C2, Tab 1, Schedule 1

Questions:

39. The Board's decision in OPG's first payment case was released on November 3, 2008. In April 2009, the National Energy Board ("NEB") released a report containing recommendations pertaining to financial issues related to pipeline abandonment. In that report, at page 32, the NEB adopted, as key principles and considerations, the principle that funds for abandonment costs should be collected and set aside in a transparent manner and that funds for abandonment costs should not be collected as part of depreciation and should be a separate element of cost of service. The NEB provided guidance for setting aside funds and established an action plan for implementing its recommendations. In a report dated May 2009, the NEB directed utilities that it regulates to comply with the steps set out in the Framework and Action Plan contained in the Board's April 2009 Report. Having regard to these developments at the NEB, please provide the following information:

    (a) What, if anything, is OPG doing to monitor the NEB's development of a transparent method for recovering abandonment costs as a separate element of the cost of service?

    (b) What is the status of responses by the utilities the NEB regulates related to the implementation of the NEB's recommendations for the collection and setting aside of funds related to pipeline abandonment costs as a separate element of cost of service?