

CCC Interrogatory #001
(NON-CONFIDENTIAL VERSION)

Ref: Ex. A1-T7-S1

Issue Number: 1.3

Issue: Is the overall increase in 2011 and 2012 revenue requirement reasonable given the overall bill impact on consumers?

Interrogatory

On March 29 and April 1, 2010 OPG held two stakeholder information sessions regarding its proposed Application. At that time the proposed payment amounts inclusive of riders was \$36.25/MWh for Hydroelectric and \$62.22/MWh for Nuclear. Please provide the following information:

- a) All correspondence between OPG and its shareholder between April 1, 2010 and May 26, 2010, regarding OPG's Application;
- b) All presentations or reports made to the OPG Board of Directors during that period;
- c) A detailed description of the process OPG followed in terms of revising its budgets that flowed from the initial budgeting process;
- d) A chart explaining the differences between the amounts proposed on April 1 and the budgets now contained in the evidence in support of the Application. Where specifically did OPG make changes?

Response

- a) See Attachment 1. OPG's reply to the letter in Attachment 1 is provided in Attachment 2.
- b) The requested presentations and reports provided to OPG's Board of Directors ("OPG Board") in relation to OPG's payment amounts application are privileged and OPG objects to their production. The requested materials were prepared for the purpose of litigating the payment amounts application. The materials contain a discussion of matters that are related to OPG's strategy for litigating the application including in relation to settlement, issue analysis, regulatory risks and anticipated positions of other parties. Production of these materials, even on a confidential basis, will impact the ability of management to candidly discuss the application with the OPG Board, undermine the OPG Board in carrying out its important governance and oversight roles, and effectively compromise OPG's ability to litigate the application.

1 Further, the requested materials are not relevant to the OEB's determination of just and
2 reasonable payment amounts. The application has been prepared on a cost of service
3 basis and must be considered by the OEB as such. OPG's internal assessment of its
4 application, prospects for settlement etc. as described above can have no impact on the
5 OEB's responsibility to independently assess the application and objectively decide it
6 based on the evidentiary record.
7

8 Even if the requested materials were relevant, and not privileged, their probative value is
9 outweighed by the prejudicial effect on OPG and the regulatory process in general. In
10 order to perform their respective roles of managing and governing OPG, management
11 and directors must be able to speak freely and directors must be fully informed of both
12 the risks and benefits of management proposals. In addition to the prejudice to OPG
13 discussed above, the inevitable impact of production would be to reduce the level of
14 detail in information and analysis presented to the OPG Board and reduce the level of
15 oversight that the directors bring to bear on management's proposals. OPG submits that
16 this result is not a desirable one for the company or Ontario ratepayers.
17

18 c) There have been no changes to OPG's planned budgets between the stakeholder
19 sessions and filing of the application. The information discussed in the stakeholder
20 information sessions and the rate proposal submitted on May 26, 2010 are based on the
21 same assumptions regarding work requirements, work programs, resource requirements,
22 and performance objectives that were included in the business plans approved by OPG's
23 Board at their November 2009 meeting.
24

25 d) The payment amounts discussed during the stakeholder sessions cannot fairly be
26 characterized as proposed. OPG was explicit that these figures were preliminary and
27 subject to confirmation before the submission was finalized. That said, only two factors
28 materially impacted the payment amounts inclusive of riders between the preliminary
29 figures discussed at the stakeholder sessions and the final figures in OPG's application:
30

31 The recovery period for the tax loss variance was extended from 24 to 46 months.
32

33 The period for clearing all other variance account balances was shortened from 24 to 22
34 months due to the change in implementation date from January 1, 2011 to March 1,
35 2011.

Ministry of Energy
and Infrastructure

Office of the Minister

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900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
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Ministère de l'Énergie
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OFFICE OF THE
PRESIDENT & CEO

MAY 07 2010



Ontario

Filed: 2010-08-12
EB-2010-0008
L-04-001
Attachment 1

MAY - 5 2010

MC-2010-1610

Mr. Tom Mitchell
President and CEO
Ontario Power Generation
700 University Avenue
Toronto ON M5G 1X6

Dear Mr. Mitchell:

I am writing in regard to Ontario Power Generation's (OPG) planned rate application to the Ontario Energy Board.

As you are aware, the Province of Ontario has keenly felt the impact of the recent recession, and this has been reflected in the government's 2010 budget. We are aggressively pursuing internal cost savings to meet our fiscal targets. At the same time we are committed to ensuring government agencies and Crown corporations across the public sector are equally focused on delivering cost savings that are under their control.

Bearing that in mind, I would request OPG carefully reassess the contents of its rate application prior to filing with the Ontario Energy Board. I would like OPG to demonstrate concerted efforts to identify cost saving opportunities and focus your forthcoming rate application on those items that are essential to the safe and reliable operation of your existing assets and projects already under development.

Also, as part of OPG's efforts to mitigate rate pressures and consistent with the government's policy on the introduction of the harmonized sales tax (HST), I would request that OPG commit to returning to ratepayers the full cost reduction impact of input tax credits from items that were previously subject to the Retail Sales Tax (RST).

I am confident that OPG and the Ministry of Energy and Infrastructure can continue working together to provide good value to Ontario electricity customers.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Duguid'.

Brad Duguid
Minister

June 24, 2010

The Honourable Brad Duguid
Minister of Energy and Infrastructure
4th floor, Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E1

Dear Minister Duguid,

Thank you for your letter of May 5th, 2010 requesting that OPG carefully re-assess the contents of its rate application. I can assure you that OPG shares your desire to see that Ontario electricity consumers are provided with good value and highly reliable service.

Since our last rate decision in 2008 OPG has been focused on finding additional cost efficiencies in its business. This has included a decision to advance the shut down of four coal fired units to October 2010, a one year deferral in filing our rate application with the Ontario Energy Board (OEB), and a much more aggressive approach to business planning. In fact, OPG's business plan for 2010-2014 placed significant emphasis on reducing OM&A expenses compared to the previous year's plan through aggressive target setting, efficiencies and other cost reduction measures. As a result of those efforts, OPG has removed in excess of \$600 million over the period 2010 to 2013.

OPG's rate application is based on the 2010-2014 business plan and therefore reflects a good portion of the \$600 million in savings mentioned above. For example, the application presents OPG's use of benchmarking to support our cost control activities and to drive performance improvement at our nuclear and hydroelectric facilities. In nuclear, an extensive benchmarking effort has led to the development of challenging five-year operational and financial performance targets. Based on initiatives and other cost control measures developed in response to this benchmarking activity, the application includes more than \$200 million in nuclear OM&A cost savings in the rate period of 2011-2012.

OPG's corporate groups have also embarked on significant cost saving initiatives. Here we have been able to hold overall spending levels to an increase of just over one percent per year on average over 2007-2012. One of the key contributors has been our ability to control Information Technology costs. We have been able to reduce our Information Technology costs by achieving lower service provider costs, leveraging existing applications, and increasing the standardization and simplification of our information technology environment.

The rate application also includes expenditures related to the refurbishment of our Darlington generating station and our plans to continue to operate the units at the Pickering B station. Both of these initiatives are important in helping the Government achieve its objective of providing the people of Ontario with a clean, reliable and cost effective supply of electricity.

Your letter specifically references the need to return to ratepayers the savings that result from the introduction of the harmonized sales tax (HST). I can confirm that this is part of OPG's plan. The introduction of the HST produces a small net benefit for OPG, and the rate application includes the savings for ratepayers that are attributed to our regulated assets.

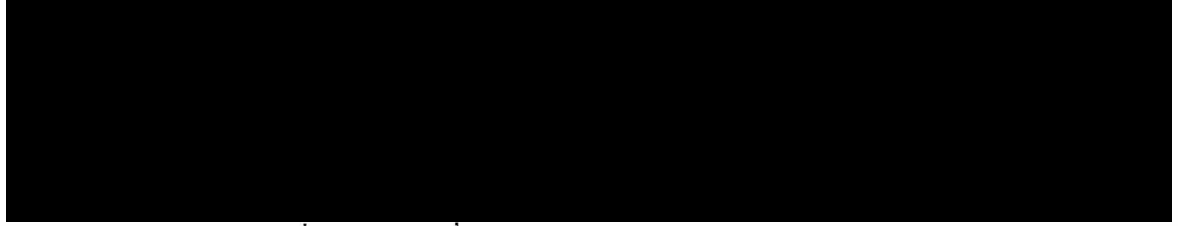
As you know, in response to the building public concern over electricity prices, OPG determined in mid-April that it would defer the filing of its application to allow us to consider alternatives that would further reduce the impact on customers. As a result of the work that we have done since then, I can assure you that OPG's revised rate application fully meets the requirements of your May 5th letter.

OPG's revised application extends the period over which we would recover some costs relating to our last OEB decision. This extension reduces the average increase in rates to approximately 6.2% from the previously indicated 9.6%. Given that our last rate increase was awarded in 2008, this new increase is equivalent to about 2% per year over the 2008-2011 period. In terms of consumer impact, a 6.2% increase would result in an estimated increase of \$1.86 per month on the bill of a typical residential consumer.

As you may know, at its meeting of May 20, 2010, OPG's Board of Directors approved OPG's revised rate application and on May 26, 2010 the application was filed with the OEB. Under separate cover, OPG's Board Chair has submitted a revised 2010-2014 Business Plan that reflects the new proposed rates to you and to the Minister of Finance for concurrence, as per our Memorandum of Agreement.

The Honourable Brad Duguid

Page 3
Filed: 2010-08-12
EB-2010-0008
L-04-001
Attachment 2



Please let me know if you require any additional information.

A handwritten signature in black ink, appearing to read 'Tom Mitchell'.

Tom Mitchell
President & Chief Executive Officer

cc. David Lindsay, Deputy Minister, Ministry of Energy and Infrastructure

CCC Interrogatory #002

Ref: Ex. A1-T4-S1, page 5

Issue Number: 1.3

Issue: Is the overall increase in 2011 and 2012 revenue requirement reasonable given the overall bill impact on consumers?

Interrogatory

The evidences states that The Memorandum of Agreement between OPG and its shareholder provides for the shareholder to direct OPG to undertake special initiatives. Please provide a list of any directives made since the last payments case and indicate to what extent those directives have impacted the proposed payment amounts.

Response

All directives from OPG's shareholder are listed on OPG's website (<http://www.opg.com/about/governance/open/directives.asp>). There have been three directives since the last payment amounts case but they all deal with thermal generation and therefore have no impact on prescribed operations or the proposed payment amounts.

CCC Interrogatory #003

Ref: Ex.

Issue Number: 1.3

Issue: Is the overall increase in 2011 and 2012 revenue requirement reasonable given the overall bill impact on consumers?

Interrogatory

On April 15, 2010 Andrew Barrett sent an e-mail to OPG stakeholders indicating that OPG was looking for ways to "further lessen the impact of our request on ratepayers". Please explain how this objective to reduce impacts on ratepayers fits into OPG's overall business planning process.

Response

Customer cost impacts are a key consideration in OPG's business planning process. In recent planning cycles it has increased in importance as a driver. For example, as can be seen in Ex. A2-T2-S1, the introduction to OPG's 2009 Business Planning Instructions begins with a description of the economic environment and the challenges facing OPG's customers. See also response to the interrogatory in Ex. L-04-001, Attachment 2, paragraph 2.

CCC Interrogatory #004

Ref: Ex. B1-T1-S1 pages 6-7

Issue Number: 2.1

Issue: What is the appropriate amount for rate base?

Interrogatory

The total working capital for OPG's nuclear facilities is forecast to be \$869.1 million in 2011 and \$848.5 million in 2012. What has OPG done or what is OPG currently doing to reduce nuclear working capital requirements. When, from OPG's perspective would it be appropriate to undertake a new lead-lag study?

Response

OPG's initiatives to reduce nuclear working capital are outlined in Ex. L-1-009.

From OPG's perspective, it would be appropriate to conduct a new lead/lag study as part of the proceeding to establish the base for incentive rates. See response in Ex. L-1-150.

CCC Interrogatory #005

Ref: Ex. D4-T1-S1

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

Please provide the terms of reference for the Charles River Associates Study on CWIP. Was this study tendered? If not, why not? What are the costs of the study and how are those costs to be recovered? Has OPG contracted for any other studies on this topic? If so, please provide copies of those reports.

Response

The study in question was conducted under a general purchase order which was awarded to Charles River Associates for regulatory support pursuant to a full RFP process. The process was conducted for the provision of regulatory support for calendar years 2009, 2010 and 2011. The engagement letter for the study is attached.

OPG has not contracted for any other studies on this topic.



July 25, 2008

Colin Anderson
Regulatory Affairs
Ontario Power Generation, Inc.
700 University Avenue
Toronto, Ontario M5G 1X6
CANADA

RE: CWIP Regulatory Support

Dear Colin:

I am pleased that effective July 28, 2008, Ontario Power Generation Inc. ("OPG") has retained CRA International, Inc. ("CRA") to assist you in support with respect to the regulatory treatment of Construction Work in Progress ("CWIP") costs in generation ratebase.

A Brief Discussion of Construction Work in Progress

CWIP is a holding account that captures the expended detailed costs incurred in the design and construction of facilities that meet general capitalization rules and thresholds. At the point when the facility is usable, even if the construction contract remains open, the value of costs accumulated in CWIP to date associated with the facility is moved into rate base.

Practically speaking, the conventional regulatory approach associated with CWIP is to capitalize costs during construction, and wait until the project is in-service to transfer the costs to rate base and to commence recovery of the investment in rates. This approach is far from optimal from the Applicant's perspective when one considers the significant upcoming capital expenses that OPG will incur if it goes forward with nuclear refurbishment or new build opportunities that are being considered with respect to OPG's prescribed nuclear assets. If one makes the assumption that construction of new facilities and infrastructure is generally positive for ratepayers, then the existing approach leaves much to be desired from that perspective too, since in some cases proponents of major construction projects will not or can not proceed given the current system, and projects that do proceed will result in significant rate pressures when these projects enter into productive service.

Colin Anderson
July 25, 2008
Page 2

Approach

The engagement will be subdivided into three distinct phases:

1. *Development of a third party expert report supporting OPG's position and providing an illustration of evidence with relevant examples (Transmission and Generation)*

OPG has selected CRA to create a whitepaper that outlines the case for inclusion of CWIP within rate base from an Ontario generator's perspective. The paper should be grounded in regulatory and accounting fundamentals but clearly illustrate why the existing regulatory approach is inconsistent with Ontario's current policy framework and new infrastructure requirements.

The primary deliverable will be a white paper incorporating a recommended approach to integration of CWIP within rate base. The paper will be substantiated with regulatory precedents and will clearly articulate benefits associated with the proposed change in approach to all stakeholders. The paper will consider the following areas (including, but not limited to):

- Regulatory precedents in other jurisdictions (FERC, State-level, other Canadian jurisdictions)
- Legislative constraints or obligations influencing regulatory decisions, and their applicability to OPG
- Inclusion of full CWIP within rate base in future test period rate regulation
- Consideration of inclusion of changes to depreciation expense if CWIP amounts are amortized
- Consideration of other adjustments to revenue requirement associated with the proposed treatment, identifying specific adjustments that were made and the rationale / method for determining specific adjustments
- Recommended approach

2. *Development of Alliances*

OPG must seek out potential allies who share its position. At the conclusion of the whitepaper creation, OPG in conjunction with CRA may choose to socialize the paper with various stakeholders in Ontario to gather support for the proposed approach. A list of potential allies will be developed by OPG, ranked and approached accordingly.

Much of the work in this phase is associated with meeting with individual stakeholders and discussing the proposed approach with them. CRA involvement will be on an as-required basis during these meetings, to defend the whitepaper and bolster support for the general recommendation. OPG may create a general stakeholder map indicating who the key stakeholders are, what each stakeholder's interests are, whether (and the degree to which) the stakeholder is supportive / opposed, what changes would be required to gain support.

Colin Anderson
July 25, 2008
Page 3

3. *Regulatory Support at Hearing*

Depending upon the success of the previous phases, OPG may request CRA to assist OPG in the creation of evidence and to provide expert testimony at hearing in OPG's 2009 Rate Application to the OEB.

The deliverable in this the phase is the drafting of written evidence that is judged acceptable by OPG for filing with the OEB as part of OPG's next rate application. Provision of expert testimony to defend the evidence at hearing is also included, as well as necessary witness education and training.

Timing of Activities

Phase 1 of the engagement will begin at the end of Q2 2008 with the awarding of the business to CRA. A final version of the whitepaper is expected by the start of Q4 2008. Depending on the outcome of Phase 1, Phase 2 will begin when the whitepaper is concluded and Phase 3 (evidence creation) will potentially begin in Q4 2008, continuing into Q1 2009. OPG's decision to proceed on Phases 2 and 3 depends on the outcome of Phase 1.

Terms and Conditions

In establishing and maintaining good relationships with clients, we have found it important to provide each client with a statement of our engagement practices and our billing policies. These practices and policies are intended to safeguard our client information, establish reasonable fees for our services, and provide for the billing and collection of fees in a timely manner.

All of CRA's work for clients is confidential. CRA staff members and consultants have signed confidentiality agreements and are obligated not to disclose any confidential information or documents used or obtained in the course of our studies. This obligation of confidentiality does not apply to data or information which: (1) is or becomes generally available to the public other than as a result of a disclosure by CRA or any of its representatives; or (2) is required to be disclosed pursuant to any subpoena, order or decree of any appropriate court or governmental agency; or (3) was in CRA's possession prior to the time it was disclosed to CRA by you; or (4) is disclosed to CRA by a third party who is under no obligation of confidentiality to you. Following termination, any nonpublic information you have supplied to CRA, which is retained by us, will be kept confidential with at least the same degree of care as we use for our own materials. If, upon such termination, you wish, at OPG's expense, to have any such documents stored by us, delivered to you, or destroyed, please advise us. Otherwise, all such documents will be transferred to the person responsible for administering our client document storage program. For various reasons, including the minimization of unnecessary storage expense, we reserve the right to destroy or otherwise dispose of any such documents. The terms of this paragraph shall survive termination and/or the expiration of this agreement.

The relationship of CRA and OPG is solely that of independent contractors. In no event shall this agreement or any work performed by CRA create a relationship of principal and agent, partnership or joint venture or any fiduciary relationship between the parties.

Colin Anderson
July 25, 2008
Page 4

Under this Agreement, CRA will provide consulting expert services to OPG. CRA will report to OPG on the progress of CRA's work, either orally or if requested by OPG, in written form. CRA will offer independent, objective opinions and analysis.

CRA will provide its services on a time-and-materials basis. Our billing and payment policies are described in Exhibit A to this letter, which is incorporated herein.

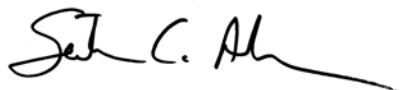
You have asked us to provide an estimate for our services under this agreement. The indicative estimated cost of Phase 1 (development of the whitepaper) is US\$30,000. Please recognize that this is an indicative estimate and is not a fee cap or limitation of the amount of services that may be rendered by or paid to CRA. All invoices will be submitted to OPG for payment. Payment is due upon receipt of the invoice. CRA may terminate this Agreement at any time and for any reason upon thirty (30) days' prior written notice to OPG.

The total liability of CRA shall be limited to the total amount of fees paid to CRA under this engagement. Under no circumstances shall CRA be liable for consequential, punitive, incidental or special damages or claims in the nature of lost profits, lost revenue or lost opportunity costs. The terms of this paragraph shall survive termination and/or the expiration of this agreement.

Thank you for your confidence in our ability to assist OPG. We look forward to working with you.

Sincerely yours,

CRA INTERNATIONAL, INC.

A handwritten signature in black ink, appearing to read "Seabron Adamson", with a long horizontal flourish extending to the right.

Seabron Adamson
Vice President

Enclosure

CCC Interrogatory #006

Ref: Ex. D2-T2-S2

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

- a) Please provide all materials, presentations and reports provided to OPG's Board of Directors in seeking approval to include the Darlington Refurbishment CWIP in rate base.
- b) When was the Decision made?
- c) Did OPG get specific approval to seek recovery of CWIP in rate base from its shareholder?
- d) If not why not?
- e) If so, please provide all correspondence related to that directive.

Response

- a) See the response to Interrogatory L-04-001 part (b) with respect to the requested provision of Board of Directors materials.
- b) The Construction Work in Progress ("CWIP") proposal is part of OPG's Application and was approved as part of the overall approval of the Application.
- c) OPG did not seek shareholder approval of its CWIP in rate base proposal.
- d) The appropriate level of approval for the CWIP in rate base proposal is the OPG Board of Directors.
- e) Not applicable.

CCC Interrogatory #007

Ref: Ex. D2-T2-S2

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

OPG is seeking approval to include the Darlington Refurbishment CWIP in rate base. In the 2007/2008 HON Transmission proceeding the HON sought similar relief for several projects. That relief was denied, but for the Niagara Reinforcement Project the Board allowed HON to expense, rather than capitalize the AFUDC associated with the project. Please explain why this approach would not be appropriate for OPG with respect to Darlington.

Response

The approval to expense the carrying costs of the Niagara Reinforcement project was based, in part, on an understanding that the project construction had been suspended and it was uncertain whether the project would be completed as planned, reformulated, or abandoned. From an economic and ratemaking perspective, inclusion of Construction Work In Progress ("CWIP") in rate base and "expensing of AFUDC" (Allowance for Funds Used During Construction) are similar approaches. That is, instead of financing costs being capitalized for future recovery, they are recovered in rates as they are incurred. That said, the recommendation that financing costs should be recovered as incurred for the Darlington Refurbishment project (i.e., through inclusion of CWIP in rate base) is not based on a finding that the project's in-service date has become uncertain.

CCC Interrogatory #008

Ref: Ex. D2-T2-S2

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

Did HON consider other accounting approaches for the Darlington Project? If so, why were those approaches rejected?

Response

OPG understands the reference to HON in the question should be a reference to OPG.

OPG did not consider other accounting approaches for the Darlington Refurbishment project. OPG concluded that the existing accounting approach is the appropriate accounting approach under Canadian Generally Accepted Accounting Principles ("GAAP").

CCC Interrogatory #009

Ref: Ex. D2-T2-S2, page 9

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

The evidence indicates that OPG will provide regular updates on project scope, schedule and progress, any variances against budget and a forecast of future expenditures for the Darlington Project. Please specifically identify the format of that reporting. Will OPG be seeking approval of that reporting in this case?

Response

The reference on page 9 of Ex. D2-T2-S2 states that OPG expects to provide regular updates on the Darlington Refurbishment project as part of its submissions in future payment amount applications. OPG has not specifically considered the format for this reporting, nor will OPG be seeking approval of the format for this reporting in this Application.

CCC Interrogatory #010

Ref: Ex. D2-T2-S2

Issue Number: 2.2

Issue: Is OPG's proposal to include CWIP in rate base for the Darlington Refurbishment Project appropriate?

Interrogatory

If the Board grants OPG approval to recover CWIP in rate base for the Darlington Project what happens if the project is suspended or cancelled , thereby never going into service. Would those costs already recovered from ratepayers be returned? If not, why not?

Response

In the unlikely event that the project is suspended or cancelled, OPG would apply to the OEB for a regulatory treatment for the Construction Work In Progress ("CWIP") costs recovered from ratepayers. OPG expects that this treatment would be consistent with the terms of Section 6(2)4 of O. Reg. 53/05 (Ex. A1-T6-S1, page 3):

4. The Board shall ensure that Ontario Power Generation Inc. recovers capital and non-capital costs, and firm financial commitments incurred to increase the output of, refurbish or add operating capacity to a generation facility referred to in section 2, including, but not limited to, assessment costs and pre-engineering costs and commitments,

i. if the costs and financial commitments were within the project budgets approved for that purpose by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., or

ii. if the costs and financial commitments were not approved by the board of directors of Ontario Power Generation Inc. before the making of the Board's first order under section 78.1 of the Act in respect of Ontario Power Generation Inc., if the Board is satisfied that the costs were prudently incurred and that the financial commitments were prudently made.

CCC Interrogatory #011

Ref: Ex. C1-T1-S1, page 1

Issue Number: 3.1

Issue: What is the appropriate capital structure and rate of return on equity?

Interrogatory

OPG retained Foster Associates to examine potential methodologies for developing technology specific costs of capital. Was the Foster Study tendered? If not, why not? Please provide the terms of reference. What were the costs of the study and how were those costs recovered?

Response

Foster Associates, Inc. was engaged to conduct the study through an invitational competitive Request for Proposal ("RFP") process. The terms of reference for the engagement are provided in Attachment 1. The scope of the assignment is in Appendix C - Specifications.

The cost of the study was \$82,937 (U.S. dollars). The costs were recovered through the approved payment amounts.



REQUEST FOR PROPOSAL

for

**CAPITALIZATION & COST OF CAPITAL
CONSULTING SERVICES**

Issue Date: October 02, 2009

Ontario Power Generation Inc. RFP Number: AM-2009-070

Closing Date and Closing Time: 4:00 p.m. (Toronto time) on October 23, 2009

Closing Location: Proposal Depository, HG103, 700 University Avenue, Toronto, Ontario, Canada M5G 1X6

Ontario Power Generation Inc. Supply Chain Representative: Amir R. Mirshahi, Sr. Supply Chain Specialist, 700 University Avenue, H07A14, Toronto, ON M5G 1X6 (416) 592-6876, amir.mirshahi@opg.com



Amir R. Mirshahi
Sr. Supply Chain Specialist

Corporate Supply Chain

700 University Avenue, H07A14, Toronto, Ontario M5G 1X6

Tel: 416-592-6876 Fax: -416-592-2649
Email address: amir.mirshahi@opg.com

October 02, 2009

Dear Sirs/Madams:

Capitalization & Cost of Capital Consulting Service (the “Project”)

This request for proposals, as cancelled, amended or clarified from time to time (collectively, this “**RFP**”), is for inviting firms to provide Proposals for professional services to assist OPG in Capitalization & Cost of Capital Consulting Service.

This letter (the “**Invitation Letter**”) is an invitation to you to submit a Proposal to provide services for the Project. The terms that govern this RFP are set forth in the enclosed RFP Rules (the “**RFP Rules**”), and all capitalized terms used in the Invitation Letter are as defined in the RFP Rules).

Your Proposal, and other proposals that may be received by OPG, may be subject to negotiation. **This RFP is expressly not a call for tenders.**

The RFP Process:

Kindly execute below to confirm your agreement with the RFP Rules and to indicate whether or not you intend to participate in this RFP, and return it within two business days of receipt of this RFP. We confirm that you have been invited to participate in this RFP based on your agreement that the confidentiality provisions in the RFP Rules will apply immediately.

Only Qualified Proponents who meet minimum qualification requirements (the “**Mandatory Criteria**”) as determined by OPG, will be invited to participate in the Final Selection Process. Final Proposals will be evaluated on the Mandatory Criteria, certain rated criteria (the “**Rated Criteria**”) and on price/cost.

In addition, this RFP includes the following documents:

1. Contract document for the Project, (the “**Agreement**”), including
 - (a) the commercial terms Contract Standard A29-2009;
 - (b) all schedules to the commercial terms, including the specifications set out in Appendix “C (the “**Specifications**”);
 - (c) OPG’s Business Expense Schedule 2009
 - (d) Information and Consent Form set out in Appendix “D”;
2. the enclosed proponent information form (the “**Proponent Information Form**”);
3. the enclosed pricing submission form (the “**Pricing Submission Form**”);
4. OPG Confidentiality Agreement; and
5. all other documents that are made part of this RFP under the RFP Rules.

The information that you require to complete a Proposal is contained in the enclosed documents, subject to any Amendments or Clarifications that you may receive from OPG. Kindly complete your Main Proposal in the form of the Proponent Information Form and Pricing Submission Form in accordance with the RFP Rules.

Alternative Proposals are permitted and may be evaluated; however Alternative Proposals are also subject to the Criteria (including Mandatory Criteria) as set out below. If you wish to submit an Alternative Proposal, it should be included as a schedule to your Main Proposal and therefore any Alternative Proposal should be attached as a schedule to the Proponent Information Form. The pricing information for the Alternative Proposal should be clearly identified and included as a schedule to your Pricing Submission Form.

After the Closing Date for the receipt of Proposals, OPG will evaluate the various Proposals based on the Criteria and Criteria weightings set out below, using the evaluation methodology set out in the RFP Rules and determine which Proponent(s) (if any) it will short-list. These Proponents may be invited to present further clarification of their Proposals, if required. These presentations will be scored in accordance with the evaluation criteria set out for phase 2 in the RFP Rules. When this evaluation is complete, OPG will determine which Proponent(s) (if any) it will negotiate with. OPG may negotiate with more than one Proponent from time to time.

This RFP will be complete, and the RFP Rules will terminate, either when this RFP is cancelled by OPG, or when OPG enters into a contract with one of the Proponents. Notwithstanding the foregoing, the confidentiality provisions in the RFP Rules will survive such termination.

Criteria for Evaluating Proposals:

OPG will evaluate each Proposal in a three stage sequential process based on the following Criteria, and in the form below, to determine which Proposal(s) are best suited to OPG's requirements as set out in the RFP:

Stage 1 Mandatory Criteria

Each Proponent is required to satisfy Mandatory Criteria in totality.

“MANDATORY CRITERIA”	SATISFIED (YES)	SATISFIED (NO)
Proponents must demonstrate that key staff assigned to the project can complete the deliverables in the prescribed timelines		
Proponents must confirm that they have the capability/resources to deliver the required services under tight timelines typically associated with the Project, including the capability to manage reasonable schedule changes.		
Proponents must provide at least 3 relevant references.		
Qualification & Experience of the Proponents set out in Appendix “C must have experience testifying before a regulatory tribunal		

OPG may discontinue the evaluation of, and reject, any Proposal that does not satisfy any of the Mandatory Criteria.

Stage 2 Rated Criteria

Each Proposal must include a completed Proponent Information Form including all schedules.

“RATED CRITERIA”	WEIGHTING- Points
expertise and Success of key individuals; including experience Recency and Success providing Testimony, experience in Quasi Judicial hearing processes, knowledge of Ontario generation market and OPG, Nuclear & Hydroelectric generation experience-identify risks,	40
Methodology and approach including understanding of Specifications and RFP Instructions, detailed work plan for deliverables in Specification,	15
Timeliness/availability/independence including availability of key staff to meet project deadline.	5
Historical performance- references believe including key staff have the skills to undertake this work,	10
TOTAL	70

OPG may discontinue the evaluation of, and reject, any Proposal that does not meet the Minimum Rated Criteria threshold.

Each Proposal must score a minimum 50 points in the Rated Criteria to be considered to Stage 3.

Stage 3 Pricing Submission Form

The Rated Criteria will account for 50% of the total evaluation. The Pricing Submission Form will account for 50% of the total evaluation.

OPG reserves the right to not evaluate the Pricing Submission Form if any Mandatory Criteria or minimum Rated Criteria are not met.

OPG reserves the right to not evaluate the Pricing Submission Form if any Mandatory Criteria or minimum Rated Criteria threshold of any Rated Criteria are not met.

In the case of a tie in total evaluation score, the Proponent with lowest overall price will be selected.

If further information is required, please contact me.

Yours truly,

ONTARIO POWER GENERATION INC.

Amir R. Mirshahi, *C.P.P., C.P.M.*
Sr. Supply Chain Specialist

APPENDIX "A"
PROPONENT ACKNOWLEDGEMENT

October 02, 2009

Ontario Power Generation Inc.
700 University Avenue, H7A14,
Toronto, M5G 1X6, Ontario, Canada

Attention: Amir R. Mirshahi, Sr. Supply Chain Specialist
e-mail: amir.mirshahi@opg.com

Dear Sirs/Madams:

Capitalization & Cost of Capital Consulting Service
Ontario Power Generation Inc. RFP Number#AM-2009-070
Closing Date: October 23, 2009

We confirm receipt of this RFP relating to the Capitalization & Cost of Capital Consulting Service..
We have reviewed this RFP and we have decided that:

___ we will submit one or more Proposals in the form of the Proponent Information Form and Pricing Submission Form on or before the Closing Date and we have read, understood and agree with the terms set out in this Invitation Letter and the RFP Rules; or

___ we decline to submit a Proposal and are returning this RFP to the above address and confirm that the confidentiality provisions in the RFP Rules apply. We are not submitting a Proposal because _____

_____.

Send all communications to us respecting this RFP to:

Company:
Address:
Attention:
Telephone:
Fax:
E-mail:

Name of Proponent:

Name of Authorised Signatory:
Title:

APPENDIX “B”

RFP Rules Capitalization & Cost of Capital Consulting Service

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RFP Rules

Capitalization & Cost of Capital Consulting Service

Definitions

In these Instructions, the following terms have the respective meanings set out below.

- (a) **Agreement** is defined in the Invitation Letter.
- (b) **Alternative Proposal** is defined in section 0.
- (c) **Amendments** means extensions to the Closing Date or revisions, deletions, additions or substitutions of terms or other information respecting this RFP that are issued to Proponents in writing by the OPG Supply Chain representative referenced in section 0.
- (d) **Clarifications** means explanations or interpretations respecting this RFP that are issued to Proponents in writing by the OPG Supply Chain representative referenced in section 0.
- (e) **Closing Date** is defined in section 0.
- (f) **Closing Time** is defined in section 0.
- (g) **Confidential Information** is defined in section 0.
- (h) **Criteria** is defined in section 0.
- (i) **Declarant** is defined in section 0.
- (j) **Due Diligence Information** is defined in section 0.
- (k) **Invitation Letter** means the letter included in this RFP inviting each Proponent to submit a Proposal to provide goods and/or services for the Project.
- (l) **Main Proposal** is defined in section 0.
- (m) **Mandatory Criteria** is defined in the Invitation Letter.
- (n) **Minimum Rated Criteria** is defined in the Invitation Letter.
- (o) **OPG** means Ontario Power Generation Inc.
- (p) **Preferred Proponents** is defined in section 0.
- (q) **Pricing Submission Form** is defined in the Invitation Letter.
- (r) **Project** is defined in the Invitation Letter.
- (s) **Proponent** means a prospective proponent of this RFP.
- (t) **Proponent Information Form** is defined in the Invitation Letter.
- (u) **Proposal** means a Main Proposal and/or an Alternative Proposal.
- (v) **Rated Criteria** is defined in the Invitation Letter.
- (w) **Representatives** means OPG's subsidiaries and all employees, officers, directors, agents and representatives of OPG or any of its subsidiaries.
- (x) **RFP** is defined in the Invitation Letter.
- (y) **RFP Rules** means these RFP Rules including any Amendments and Clarifications.
- (z) **Specifications** is defined in the Invitation Letter.

Each capitalised term not otherwise defined in these Instructions has the meaning given to it in the Invitation Letter.

Interpretation

In these Instructions and in the Invitation Letter, words importing the singular include the plural and vice versa and the term “including” means “including without limitation”. All matters respecting this RFP and any Proposals are governed by, and are to be construed and interpreted in accordance with the laws of Ontario and the laws of Canada applicable in Ontario. Subject to section 0, each of the Proponents irrevocably submits to the exclusive jurisdiction of the courts of Ontario in respect of all matters respecting this RFP.

Amendments and Clarifications to this RFP

OPG may, at any time, cancel, amend or clarify this RFP by issuing a written notice to this effect to the Proponents. **No Proponent may rely on any oral explanation or interpretation respecting this RFP by OPG or any of the Representatives. No Proponent may rely on any cancellation, Amendment or Clarification unless it is issued by the OPG Supply Chain representative referenced in section 4. Accordingly this RFP will not be considered to be amended or clarified by any oral explanation or interpretation respecting this RFP by OPG or any of the Representatives.**

OPG will issue all Amendments to this RFP as numbered authorised Amendments. All cancellations, Amendments or Clarifications respecting this RFP that are issued by OPG will become part of this RFP. Each Proponent must include in its Proposal a statement that the Proponent has taken into account in the preparation of its Proposal each Amendment and Clarification. If a Proponent has not sought a Clarification and there is a subsequent controversy respecting the interpretation of a term of this RFP, including the Agreement, OPG’s interpretation will govern. OPG strongly encourages each Proponent to contact the OPG Supply Chain representative at the address set out in section 4 at least five business days before the Closing Date to confirm that such Proponent has received all Amendments and Clarifications.

Each Proponent is strongly encouraged not to make any assumptions and to seek Clarifications of any questions that such Proponent might have, particularly related to any error or discrepancy in this RFP identified by a Proponent. Proponents may not rely on any assumptions made or on any errors or discrepancies. Proponents are responsible for seeking a Clarification respecting any questions they may have respecting commercial, technical, site or other issues. Proponents must submit in writing to the Supply Chain representative at the address set out in section 4 all questions respecting commercial, technical, site or other issues arising in respect of this RFP.

OPG may issue any notices or other communication to any Proponent by hand, fax, courier, mail or e-mail. OPG encourages Proponents to submit questions and other communications (excluding Proposals) to OPG by e-mail.

Except as otherwise provided in these Instructions, OPG will neither be bound by responses to oral questions nor answer any questions received by OPG within five business days of the Closing Date. OPG will respond to written questions received more than five business days prior to the Closing Date.

Communications with OPG

Except as set out in section 13, every notice or other communication of a Proponent required or permitted in respect of this RFP must be in writing and may be delivered by hand, fax, courier, mail or e-mail to OPG as follows:

Name: Amir R. Mirshahi, Sr. Supply Chain Specialist
Ontario Power Generation Inc. RFP Number AM-2009-070
Closing Date: October 23, 2009

Address: Ontario Power Generation Inc.
700 University Avenue,
H7A14 , Toronto , M5G 1X6,
Ontario, Canada

Telephone: 416-592-6876
Fax: 416-592-2649
E-mail: amir.mirshahi@opg.com

Standards and Information

A Proponent may obtain any OPG internal documents referred to, but not included, in this RFP by contacting the OPG Supply Chain representative at the address set out in section 4. Each Proponent must itself obtain any documents prepared by a standards, regulatory or other organisation referred to in this RFP or any collective agreement applicable to the services or goods. Each Proponent must ensure that it has the current version of all such documents, collective agreements and OPG internal documents referred to or applicable to this RFP and take these documents and agreements into account in the preparation of any Proposal.

Credit Information

Each Proponent authorises OPG to make credit enquiries about the Proponent and any of its affiliates and to receive and exchange credit information from credit reporting agencies or other persons with which the Proponent or any of its affiliates has or may expect to have financial dealings. Each Proponent must provide OPG with the Proponent's (and, on request by OPG, any of the Proponent's affiliate's) audited financial statements for the last three financial years for which they are available and financial statements for any period after the last audited period. If a Proponent submits audited financial statements from a parent company to satisfy this requirement, the Proponent will be required to provide OPG with a parental indemnity if the Proponent enters into an agreement with OPG. Each Proponent will also provide OPG with any other legal or financial information respecting the Proponent or any of its affiliates that OPG may reasonably request.

Conflict of Interest

Each Proponent and, if the Proponent is a joint venture or some other form of consortium, each member of the consortium and each advisor retained by the consortium (each a "**Declarant**") must disclose to OPG any actual or potential conflict of interest that might be relevant to this RFP process. Each Declarant will disclose this information by completing, signing and returning

to the OPG Supply Chain representative referenced in section 0 a declaration in the form included in the Proponent Information Form.

Proponent's Due Diligence

Before submitting a Proposal, each Proponent must thoroughly examine all the terms and other information contained in this RFP and, in particular, all the information contained in the Specifications. Each Proponent is responsible for being fully informed prior to submitting a Proposal of all terms of the Agreement. OPG will make no allowance to any Proponent (whether by an extension to the Project schedule, by an additional payment or otherwise) because of any failure to carry out sufficient examinations or any failure to obtain any due diligence information.

By submitting a Proposal, each Proponent represents and warrants to OPG that all the information contained in the Proponent Information Form is accurate, complete and not misleading.

No Proponent may share information or otherwise communicate, either directly or indirectly, with any other Proponent in respect of this RFP. No Proponent will engage in any conduct that compromises, or could reasonably be perceived to compromise, the integrity of this RFP process. Specifically, no Proponent will communicate with any person with a view to obtaining preferred treatment respecting this RFP.

Confirmation of Completion on Time

Each Proponent will confirm in its Proposal that it can carry out the services described in its proposed work plan by the completion date associated with each of the project stages described in the deliverables section of the Specifications.

Equal Access to Information

If OPG discovers that it has provided any Amendment or Clarification to any Proponent and such Amendment or Clarification has not been provided to all the Proponents, OPG will provide such Amendment or Clarification to all the Proponents and, in OPG's sole discretion, OPG may extend the Closing Date by an Amendment.

Pricing

Ontario Energy Board's ("OEB") process requirements are not certain; therefore the consulting services requested have been divided into 4 phases as described in Appendix C. Phase 1 is titled "*Analysis and Preparation of a Report and Prefiled Evidence*". The Proponent's Main Proposal will include a fixed price bid for the completion of Phase 1 with a budget reflecting its fixed hourly rate and the hours to conduct specific activities leading to deliverable outlined in Phase 1.

Phases 2 to 4 are dependent on the review requirements of the OEB. The Proponent's Main Proposal will include a budget for Phases 2 to 4 using fixed hourly prices as described below. The budget should be based on the assumption that two stakeholders submit analysis and evidence on the subject matter of this RFP, the analysis and evidence is contested in an oral public hearing, and assistance will be required by OPG to prepare written interrogatories, interrogatory responses, argument and reply argument.

Each Proponent must submit a Proposal denominated in Canadian dollars, for the completion of the entire Project. The prices offered by each Proponent in its Proposal must include all applicable taxes and duties except Canadian goods and services tax. Each Proponent must include in its Pricing Submission Form a breakdown of the pricing information [including any Ontario retail sales tax and duties] that will allow OPG to understand how the pricing for each component of the services and goods was calculated. The Pricing Submission Form should be submitted as part of the Proposal with the Proponent Information Form, but the Pricing Submission Form must be in a separate sealed envelope. The evaluation of the Pricing Submission Form will only take place after the evaluation of the Mandatory Criteria and the Rated Criteria as set out below. OPG reserves the right to exclude any Proposal that includes any pricing information in its Proponent Information Form.

Main Proposal

OPG strongly encourages each Proponent to complete its Proposal in accordance with all the requirements of this RFP, both commercially and technically. Any Proposal containing any amendments, qualifications or other changes to the requirements of this RFP or that is otherwise incomplete will be considered to be an Alternative Proposal. Unless specifically designated as such or clearly intended as such, in the sole judgement of OPG, OPG will assume that any explanatory or descriptive material included in a Proposal does not constitute such an amendment, qualification or other change. Each Proponent must submit a Proposal in English and is strongly encouraged to submit a Proposal in the form of the Proponent Information Form and Pricing Submission Form. Failure to submit a Proposal in the form of the Proponent Information Form and Pricing Submission Form may result in the Proposal being excluded from evaluation.

Alternative Proposal

A Proponent may also submit any number of Proposals in a single submission. If a Proponent wishes to make any amendments, qualifications or other changes to the requirements of this RFP, the Proponent is strongly encouraged to submit one Proposal which is in accordance with all such requirements (the “**Main Proposal**”) and any other Proposals containing all such amendments, qualifications or other changes (any one of which is referred to as an “**Alternative Proposal**”). OPG may, however, reject or subject to adverse weighting in the Proposal evaluation process any Proposal that contains any amendments, qualifications or other changes to the requirements of this RFP. It is for this reason that all Proponents are advised of this risk if a Proponent chooses to submit only an Alternative Proposal and no Main Proposal.

Nevertheless, OPG welcomes all Alternative Proposals that a Proponent considers advisable in light of its technical and commercial knowledge. A Proponent should make clear in any Alternative Proposal the advantages of the proposed alternative. Each Proponent must state expressly in any Alternative Proposal, all of its amendments, qualifications and other changes to the requirements of this RFP, including all amendments, qualifications and other changes to the Agreement, set out precisely on a line by line basis in a blackline format. Each Proponent is deemed to have offered to agree to each term in this RFP that the Proponent has not expressly amended, qualified or otherwise changed. Each Proponent which submits an Alternative Proposal will provide OPG (by the time specified by OPG) with such information, if any, as OPG may request to evaluate the Alternative Proposal.

OPG may reissue a request for proposals based on an Alternative Proposal, except to the extent that an Alternative Proposal is based on trade secrets of the Proponent and the Proponent has identified such trade secrets in an Alternative Proposal.

Submission of Proposals

Each Proponent will submit four paper copies of each Proposal, together with an electronic copy in Microsoft Word, preferably on a compact disk. Each Proponent will submit its Proposals in a sealed package identified and addressed as follows:

Capitalization & Cost of Capital Consulting Service	Check	_____	Proposal
Ontario Power Generation Inc. RFP Number AM-2009-070	either:	_____	No Proposal
Closing Date: October 23, 2009			

to: Ontario Power Generation Inc.
Proposal Depository, HG103
700 University Avenue
Toronto, Ontario
Canada M5G 1X6

OPG will not accept responsibility for the delivery of any Proposal that is delivered to any location other than the Proposal Depository. OPG, in its sole discretion, may reject any Proposal opened by unauthorised personnel or opened before the Closing Time. If the name of the Project, the OPG RFP number and the Closing Date are not displayed prominently on the outside of a Proponent's Proposal, that Proposal may be opened inadvertently and may be rejected by OPG, in OPG's sole discretion.

Proponents must deliver their Proposals by hand, courier or mail. Proponents must ensure that their Proposals are delivered no later than **4:00 p.m.** Toronto time (the "**Closing Time**") on **October 23, 2009** (the "**Closing Date**"). OPG may, in its sole discretion, accept or reject any Proposals received after the Closing Time. OPG will not accept faxed, e-mailed or oral Proposals or faxed, e-mailed or oral modifications to Proposals. OPG will not return any Proposals.

Upon receipt of each Proposal, OPG will mark each Proposal with the date and time received and will store it in secure custody with all other Proposals until the Closing Time.

Proponents to Obtain RFP Only Through Biddingo™

This RFP is available only through Biddingo™, the electronic tendering system used by OPG. A Proponent who has not obtained this RFP through Biddingo™ may have its Proposal disqualified unless a third party has requested this RFP from Biddingo™ on that Proponent's behalf and that Proponent has identified the third party on the Proposal Return Label for its Proposal. Failure to identify the third party in this manner may result in disqualification of a Proposal.

Withdrawal or Revision of Proposals

A Proponent may withdraw any previously submitted Proposal at any time by submitting a notice signed by an authorised signatory of the Proponent requesting the removal of the Proponent's

submitted Proposal. The Proponent must deliver its notice to the OPG Supply Chain representative at the address set out in section 4.

A Proponent may revise all or part of a previously submitted Proposal at any time up to the Closing Time by submitting a new Proposal to the address referred to in section 0. Subject to section 0 relating to the submission of one or more Alternative Proposals, the last Proposal submitted by a Proponent will supersede all previously submitted Proposals by that Proponent. At the opening of the Proposals, OPG will discard unopened all superseded Proposals. It is the responsibility of each Proponent to clearly indicate to OPG in writing which Proposals, if any, are to be discarded.

Criteria for Evaluating Proposals

OPG will evaluate each Proposal based on the Mandatory Criteria, Rated Criteria and Pricing Submission Form listed in the Invitation Letter (the “**Criteria**”) to determine which Proposal(s) are best suited to OPG’s requirements as set out in this RFP.

After the Closing Date for the receipt of Proposals, OPG will conduct the evaluation of Proposals in a three-stage sequential process to determine which Proposal(s) are best suited to OPG’s requirements as set out in the RFP.

Stage 1: Stage 1 will consist of a review to determine which Proposal comply with all of the Mandatory Criteria. Only Proponents who satisfy all of the Mandatory Criteria will be considered for Stage 2 and 3.

Stage 2: This stage will consist of a scoring by OPG of each Final Proposal on the basis of the Mandatory Criteria and the Rated Criteria.

Stage 3: Upon completion of Stage 2 for all Qualified Proponents, the sealed pricing envelope provided by each Qualified Proponent containing the Pricing Submission Form will then be opened and Stage 3 will consist of the scoring of the pricing submitted.

Pricing set out in the Pricing Submission Form will be scored based on a scale of 1 to 10 (with 10 being the highest).

Cumulative Score and Selection of Highest Scoring Proponent

At the conclusion of Stage 3, all scores from Stage 2 and Stage 3 will be added and, subject to satisfactory reference checks and the express and implied rights of OPG, the highest scoring Proponent(s) will be short-listed. These Proponents may be invited to present further clarification of their Proposals, if required. These presentations will be scored in accordance with the evaluation criteria set out above for phase 2.

Entry into Agreement or Negotiations

Each Proposal will constitute an offer by the Proponent to OPG to enter into an Agreement on the terms of that Proposal. After the Closing Date, OPG may interview any Proponent and may specifically seek clarification or additional information in any format whatsoever in respect of the Proponent’s Proposal. The response received by OPG from a Proponent will, if accepted by OPG, form part of that Proponent’s Proposal. OPG may verify with the Proponent or any third

party any information set out in the Proponent's Proposal. OPG may check any references of a Proponent in addition to any references submitted in the Proponent's Proposal. Each Proponent authorises OPG to make any enquiries about the Proponent, any affiliates of the Proponent and the Proponent's Proposal respecting the verification of any such information or in respect of any references. If OPG receives information at any time that, in OPG's view, reveals that earlier information submitted by the Proponent is inaccurate, incomplete or misleading, OPG may, in its sole discretion, re-evaluate the Proponent's Proposal based on the Criteria and take such other actions as OPG considers appropriate in the circumstances.

Nothing in this RFP constitutes an offer of any kind whatsoever to any Proponent. OPG is not obliged to accept the lowest priced Proposal, negotiate with the Proponent offering the lowest priced Proposal, accept any Proposal whatsoever or negotiate with any Proponent whatsoever. Accordingly, OPG may reject all Proposals, cancel this RFP or accept or negotiate any Proposal in whole or in part at OPG's sole discretion. OPG may seek additional Proposals. OPG may contract with others, use its own resources to carry out any services or extend an existing contract for goods and/or services that are the subject of this RFP.

Once OPG has undertaken its evaluation (and any re-evaluation for any reason) of each of the Proposals based on the Criteria, OPG may, in its sole discretion, and without taking into account any custom, usage or agreement in the industry or trade, any other policy or practice or any other term in this RFP, take any of the following three actions:

- (a) enter with the Proponent into an amended Agreement (which will be a conformed contract) for the services and goods which are the subject of this RFP (based on the offer of such Proponent set out in a Proposal) which OPG has determined, in its sole discretion, has submitted the Proposal which is best suited to OPG's requirements as set out in this RFP;
- (b) select one or more preferred Proponents (the "**Preferred Proponents**") with whom to commence negotiations on an amended Agreement (which will be a conformed contract) to determine which Proposal, if any, in OPG's sole discretion, best satisfies the Criteria; or
- (c) cancel this RFP and not enter into an agreement for the services and goods contemplated under this RFP, or issue a new RFP, tender or otherwise.

If OPG proceeds in the manner described in section 0(b), OPG may change the scope of services contained in this RFP or change any other terms or other information contained in this RFP and otherwise negotiate with the Preferred Proponents the Agreement, including the Specifications, in any manner whatsoever. Based on these negotiations and the Criteria, OPG will choose, in its sole discretion, the Preferred Proponents, if any, to enter into the Agreement with on agreed terms. OPG will not provide any such changes to any Proponent that is not a Preferred Proponent. If OPG proceeds in the manner described in section 0(b), OPG may, in its sole discretion, subsequently proceed under section 0(c) for any reason whatsoever.

Except with the approval of a Proponent, under no circumstances, however, will OPG disclose any information contained in the Proposal of that Proponent to any other Proponent, including a Preferred Proponent. OPG will, however, disclose that part of any Proposal that OPG is obliged to disclose under the *Freedom of Information and Protection of Privacy Act* (Ontario). In addition, OPG may disclose, on a confidential basis, to OPG's advisers any information contained in a Proposal.

Confidentiality of RFP Information

The fact that OPG is conducting this RFP and the material contained in this RFP or disclosed in respect of this RFP is confidential information of OPG (“**Confidential Information**”). This RFP is the sole property of OPG. Each Proponent will use, and will ensure that each person to whom the Proponent discloses this RFP, in whole or in part, will use, the Confidential Information solely for the purpose of preparing a Proposal and, if applicable, negotiating the Agreement with OPG and carrying out the Proponent’s obligations under a signed Agreement, if any.

At any time, at OPG’s request, a Proponent will deliver promptly to OPG all, or an OPG-specified portion of, the Confidential Information, together with all copies, extracts or other reproductions in whole or in part of the Confidential Information. In addition, at any time, at OPG’s request, a Proponent will destroy, demonstrably, promptly and irrevocably, all such copies, extracts or other reproductions of Confidential Information, or an OPG-specified portion of the Confidential Information, which cannot, because of the device on which such information is stored, be removed from the possession of the Proponent by delivery to OPG. Following such delivery and destruction, the Proponent will promptly provide OPG with written confirmation of completion. In any event, the Proponent will complete all such actions within 30 days of receipt of OPG’s initial request. If OPG does not exercise any of its rights under this section 0 and a Proponent is not the successful Proponent, such Proponent will destroy, promptly and irrevocably, all Confidential Information and all such copies, extracts or other reproductions of Confidential Information in the Proponent’s possession or control. In any event, the Proponent will complete all such actions within 60 days of being informed or becoming aware that it was not the successful Proponent. The ongoing obligations under this section 0 shall survive the termination or expiry of this RFP.

Cost of Preparation

Each Proponent will be solely responsible for all of its costs and other expenses in respect of this RFP and the preparation and negotiation of any Proposal or Agreement.

No OPG Guarantees

OPG has included statements of facts and other information in this RFP merely for the general information of the Proponents. Neither OPG nor any of the Representatives make any representation, warranty or guarantee, express, implied or otherwise, as to the accuracy or completeness of any of these statements or other information or any subsequent written or oral statements of fact or other information provided to any Proponent. Each Proponent releases OPG and all Representatives from all claims, demands and other complaints in respect of all such statements, other information and any representation, warranty or guarantee contained in, or omitted from, this RFP or in any subsequent written or oral statements of fact or other information provided to any Proponent.

Finality

OPG has designed a request for proposals process that balances fairness to Proponents and flexibility for OPG. OPG has become concerned about the increasing degree of litigation and threats of litigation in the request for proposals and tendering processes across North America. Litigation and threats of litigation increase costs, delay projects and reduce the certainty for successful Proponents. Accordingly each Proponent agrees that OPG’s ultimate selection of the

successful Proponent is final and binding on all Proponents. All the terms of this RFP are expressly set out in this RFP and there are no implied terms respecting this RFP. Notwithstanding any other term in this RFP, no Proponent may make any claim, demand or other complaint respecting OPG or any of the Representatives to any court, other adjudicative body, governmental authority or regulatory authority respecting this RFP, including respecting the conduct of the process or the selection of the successful Proponent. In particular, without limiting the generality of the foregoing, no Proponent may seek any judgement, order, decree or other relief that such Proponent's Proposal was the "lowest" or "best" Proposal, that such Proponent is or should be chosen as the successful Proponent, that OPG erred in its evaluation of any of the terms of any Proposal of any Proponent as compared to the successful Proponent or that OPG or any of the Representatives otherwise exercised any discretion or conducted the process in an inappropriate or unfair manner. Each Proponent releases OPG and all Representatives from all such claims, demands and other complaints.

Should a Proponent have any complaint or concern regarding this RFP, the Proponent is encouraged to submit such complaint or concern in writing to OPG's Director – Corporate Procurement and Business Services, 700 University Avenue, H7, Toronto, Ontario, Canada, M5G 1X6.

The Proponent will defend and indemnify OPG and all Representatives in respect of all claims, demands or other complaints made against OPG or any of the Representatives by any subcontractor of any tier or proposed subcontractor of any tier to the Proponent in respect of this RFP.

Acceptance of Terms

By submitting a Proposal, each submitting Proponent is deemed to agree to the terms of the Invitation Letter and these Instructions.

APPENDIX “C” SPECIFICATIONS

1. Introduction

Ontario Power Generation (OPG) is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our focus is on the efficient production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

OPG's generating portfolio has a total capacity of over 22,000 megawatts (MW) making us one of the largest power generators in North America. Our generating mix includes Nuclear, Hydroelectric, Fossil and Wind generating stations. OPG currently has approximately 11,000 employees. Approximately 90% of employees belong to a union

2. Service Required

OPG is seeking a capitalization and cost of capital expert to conduct a study to support the examination of whether a separate cost of capital can be established for OPG's nuclear and regulated hydroelectric business segments with sufficient rigour to enable the OEB to rely upon the results in establishing OPG's nuclear and regulated hydroelectric payment amounts.

The expert may also be required to support the examination of this report in a regulatory process to be determined by OEB. This support may include responding to the questions and arguments relating to the study and preparing a critique of proposals submitted by other experts involved in the examination of OPG's capitalization and cost of capital issues.

3. Deliverables:

The OEB's process requirements are not certain; therefore the consulting services requested have been divided into stages.

Phase 1:

Analysis and Preparation of a Report and Prefiled Evidence: Preparation of a Capitalization and Cost of Capital Study (the “Study”) addressing the analysis requirements and issues outlined in the Specifications and the development of pre-filed evidence. A first draft of the Study shall be provided by November 30, 2009. The final Study is due December 14, 2009. First Draft of prefiled evidence is due December 22, 2009. The final prefiled evidence is due January 15, 2010.

Phase 2:

Preparing for Regulatory Process: The Proposal should assume an oral hearing process involving prehearing activities such as, but not limited to, preparing pre-filed evidence, updating results for more current information from the selected sample(s) of comparative companies for the period ended December 31, 2009, addressing any implications resulting from the OEB's review of its cost of capital policy (OEB proceeding EB-2009-0084, [Consultation Process on Cost of Capital Review](#)), providing responses to interrogatories posed by interested parties to OPG's proceeding, and providing a critique of studies submitted by other experts involved in the examination of OPG's capitalization and cost of capital issues. The expert may also be asked to participate in cost of capital and nuclear liability witness training sessions and technical conferences. Timing will be determined based on the requirements of the OEB regulatory process.

Phase 3:

Public Review: The Proposal should assume an oral hearing process involving, among other things, direct examination of the expert, cross examination of the expert by the OEB and interested parties, providing responses to undertakings provided during examination of the expert and providing support for the cross-examination of competing experts on capitalization and cost of capital. Timing will be determined based on the requirements of the OEB regulatory process.

Phase 4:

Post Hearing Activities: The Proposal should assume OPG will require assistance in the review of arguments from interested parties and provision of technical support in developing OPG's argument-in-chief and reply arguments. Timing will be determined based on the requirements of the OEB regulatory process.

4. Detailed Analysis Requirements:

The OEB's EB-2007-0905 Decision With Reasons determined that the cost of capital for OPG's regulated operations:

- 1) Shall be established based on the stand-alone principal (Page 140 to 142);
- 2) Shall be established using a 47% common equity ratio (Page 149);
- 3) Shall reflect the adoption of a formula approach to setting the ROE. The Board will adopt the existing ROE adjustment formula outlined in its report on cost of capital and 2nd generation incentive regulation (Page 162). Setting the ROE through a formula is consistent with the Board's expectation that risk differences in the regulated businesses are appropriately addressed through the capital structure rather than the ROE. (Page 162);
- 4) Shall be established using a 3.4% risk premium over the long Canada Bond yield resulting in a "bare bones" ROE (page 157, 158). The "bare bones" ROE will be increased by 50 basis points for financing flexibility (page 158);
- 5) Shall reflect the OEB's views that "OPG's regulated nuclear business is riskier than regulated distribution and transmission utilities in terms of operational and production risk, but is less risky than merchant generation" (Page 149);

Issues:

These findings of the OEB govern the cost of capital for OPG's combined nuclear and hydroelectric operations. The cost of capital was attributed to nuclear and hydroelectric operations using a rate base allocation factor. The OEB further found that "there *may be* merit in establishing separate capital structures for the two businesses as it would enhance transparency and more accurately match costs with the payment amounts" (Page 162). The Proposal shall include a work plan to provide a thorough study and prefiled evidence addressing the technology specific cost of capital issue, and will specifically include a review of the following considerations:

- Identify and evaluate the merits of potential approaches. In particular, potential approaches identified in the financial literature for estimating the stand-alone cost of capital for a division of a firm should be identified and evaluated.
- Identify issues associated with the application of these potential approaches to OPG's regulated operations.
- Determine the technology specific cost of capital for potential approaches determined to be of sufficient merit to warrant consideration by the OEB
- Develop suitable selection criteria and select samples of companies which will permit attempts to isolate cost of capital by generation technology and break down by generation

(Gx), distribution (Dx), transmission (Tx) and other, as well as generation by technology (hydroelectric, nuclear and other). The selection criteria and the sample selection process must be described in detail.

- Assess implications of assigning a specific capital structure to one technology on the implied capital structure of the other if total common equity ratio is 47% for the combination of both technologies.
- Assess whether a technology specific cost of capital should be developed using the same ROE and different capital structures to reflect technology specific risk differences.
- Review the business risk profile of OPG hydroelectric and nuclear operations and assess relative risk based on findings of the Board in EB-2007-0905. In particular, Assess implications of the OEB's findings on the treatment of nuclear liabilities as regards to relative risk of the two generation technologies and the proper equity component of nuclear rate base if ARO/unfunded liabilities are effectively treated as a form of debt.
- Assess and quantify changes in OPG's business risks since the EB-2007-0905 Decision and the implications on each technology;
- Address the implications of any changes to the cost of capital methodology, in particular the automatic return on equity adjustment mechanism currently under review by the OEB (EB-2009-0084);
- Perform sensitivity analysis to assess robustness of results.
- Assess whether a separate cost of capital can be established for OPG's nuclear and regulated hydroelectric business segments with sufficient rigour to enable the OEB to rely upon the results in establishing OPG's nuclear and regulated hydroelectric payment amounts.

APPENDIX "D"
INFORMATION AND CONSENT FORM

Ontario Power Generation Inc. (OPG) and 'Consultant' have entered into an Agreement (the "Agreement") for services dated xxxx, 2009.

I have read the following conditions and acknowledge and confirm that:

1. I agree to provide services to OPG in accordance with the terms of the Agreement.
2. OPG has my consent to perform such security and/or reference checks as it may, in its sole discretion, deem necessary.
3. I hereby acknowledge that I am not an employee of OPG for purposes of providing services under the Agreement or for any purpose under any applicable statute, including the Employment Standards Act, the Workers' Compensation Act, the Occupational Health and Safety Act, the Human Rights Code, the Income Tax Act, the Canada Labour Code, the Labour Relations Act and the Unemployment Insurance Act.
4. I further acknowledge that OPG is not responsible to pay or remit any required taxes, Workers' Compensation premiums, unemployment insurance and pension levies in relation to services that I provide.
5. *OPG has sole ownership and intellectual property rights in any work that I perform for OPG and I expressly waive in favour of OPG any ownership or intellectual property right, claim or interest that I might otherwise have been able to assert.*
6. I will cooperate with OPG in the protection of intellectual property rights and the protection including, execution of any kind of documentation, applications for patent, copyright and the like and/or certificates in this regard.
7. I will keep confidential and will not further disclose (except as expressly authorized in writing by OPG) any information, whether tangible or intangible, which has or may come into my possession, control or knowledge during the period that I am providing services to OPG under the terms of the Agreement. I further agree that I will maintain this confidentiality even after I cease to provide services under the terms of the Agreement. I have read the section in the Agreement on entitled Confidentiality agree to be bound by its terms, and will enter into a Confidentiality Agreement as required by OPG..
8. I will protect OPG's property and computer resources against damage and waste including, following all rules established for protection against computer viruses.
9. I will use any OPG resources, computer time and software that become available to me or which are within my control, solely for the purposes of performing work for OPG under the terms of the Agreement.
10. I will obey all rules and regulations established by OPG regarding the premises to which I have access and the projects on which I perform work.
11. *I have received and read OPG's "Code of Business Conduct" in full and I fully agree to conduct all of my activities in accordance with the principles contained in the Code.*

SIGNED, this day of , 2009

(Consultant - print name)

CCC Interrogatory #012

Ref: Ex. C1-T1-S1, page 2

Issue Number: 3.1

Issue: What is the appropriate capital structure and rate of return on equity?

Interrogatory

OPG is applying the Board's Cost of Capital Report in order to determine its forecast ROE for the test years. Please provide any correspondence between OPG and its shareholders regarding the decision to apply for a higher ROE. If the Board grants OPG approval for rate base treatment of CWIP for the Darlington Project how would this impact OPG's requested ROE or capital structure?

Response

There is no correspondence between OPG and its shareholder regarding the decision to apply the OEB's Cost of Capital Report to determine its forecast ROE.

OPG expects that there would be no impact on its requested ROE or capital structure if the OEB grants approval for rate base treatment of CWIP for the Darlington Refurbishment Project.

CCC Interrogatory #013

Ref: Ex. C1-T1-S2, page 8

Issue Number: 3.2

Issue: Are OPG's proposed costs for its long-term and short-term debt components of its capital structure appropriate?

Interrogatory

The evidence indicates approximately \$800 million in new borrowing is needed to finance the Niagara Tunnel Project over the 2010-212 period. OPG does not plan to undertake any other project-related financing for the regulated assets during the test period. Please explain why OPG does not need to borrow for other projects. In addition, please explain, to what extent, if any, OPG's proposal to recover CWIP in rate base may affect its borrowing requirements. What if the CWIP proposal is rejected?

Response

It is not OPG's position that it does not need to borrow for other projects. Project-related financing applies only to financing arrangements that have been established for specific projects. Financing for other projects would fall under Existing/Planned Long Term Debt.

Rejection of the Construction Work In Progress ("CWIP") proposal is expected to increase borrowing requirements.

CCC Interrogatory #014

Ref: Ex. C1-T1-S2

Issue Number: 3.2

Issue: Are OPG's proposed costs for its long-term and short-term debt components of its capital structure appropriate?

Interrogatory

Please explain if OPG's proposals for debt costs are consistent with the Board's Cost of Capital Report. To the extent they are not consistent please explain why.

Response

OPG's proposals for debt costs are consistent with the OEB's Cost of Capital Report:

- Short-term Debt: The OEB's Cost of Capital Report states at page 56 that the approach to be used by OPG for its short-term debt shall be "Consistent with the Board's practice in OPG's 2008 Cost of Service Application (EB-2007-0905)". In this application, OPG has applied the same methodology it used in EB-2007-0905.
- Long-Term Debt: The OEB's Cost of Capital Report states at page 51 that the approach to be used by OPG for its long-term debt shall be "Consistent with the Board's practice in OPG's 2008 Cost of Service Application (EB-2007-0905)". In this application, OPG has applied the same methodology used by it in EB-2007-0905.
- Other Long-Term Debt Provision: There is no specific reference in the OEB's Cost of Capital Report related to OPG's Other Long-Term Debt Provision. In EB-2007-0905 the OEB determined that the incremental hedged cost of long-term debt should be used. As discussed in response to Ex. L-01-014, in this application, OPG has applied the provision from the report that applies to electricity distributors with no actual debt (page 54, bullet #1). Specifically, OPG has used its deemed debt rate as it has "no actual debt" to support its Other Long-Term Debt Provision.

CCC Interrogatory #015

Ref: Ex. D1-T1-S1, page 2

Issue Number: 4.2

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the regulated hydroelectric business appropriate and supported by business cases?

Interrogatory

The Niagara Tunnel Project was approved by the OPG Board on July 28, 2005 with an estimated in-service date of 2010. In May 2009 OPG approved a revised estimate of \$1.6 billion and a revised in-service date of December 2013. Please explain, in detail, what type of reporting OPG plans to do with respect to this project during the test year period.

Response

OPG external reporting on this project during the test period is expected to include:

- Management's Discussion and Analysis included with OPG's Quarterly and Annual Financial Statements.
- Periodic updates of the project website.

OPG's confidential internal reporting on this project is expected to include:

- Quarterly status reports to the OPG Risk Oversight Committee and Board of Directors.
- Monthly written status reports.
- Weekly verbal reports to OPG's Executive Management Team.

CCC Interrogatory #016

Ref: Ex. D1-T1-S2

Issue Number: 4.2

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the regulated hydroelectric business appropriate and supported by business cases?

Interrogatory

OPG has provided a Business Case Summary for the Niagara Tunnel Project dated May 2009. Please explain how, if at all, the parameters of the project have changed since this analysis was undertaken. Specifically does OPG have updated projections of the cost of the project and the potential in-service date? If so, please provide that update.

Response

No, OPG's current forecasts are consistent with the approved Business Case Summary, i.e., a total project cost of \$1.6B and an in-service date of December 2013.

CCC Interrogatory #017

Ref: Ex. D1-T1-S1, page 13

Issue Number: 4.2

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the regulated hydroelectric business appropriate and supported by business cases?

Interrogatory

The evidence states that if during the execution of a hydroelectric project, the cost projection at completion is forecast to exceed the approved project budget, a superseding BCS is prepared to document the status of the project, the causes of the forecast over-expenditure, the management actions taken to-date to control costs, and all viable cost control or scope adjustment options for management consideration. For all projects schedule to be going into service during the test period please indicate whether a superseding BCS was prepared. Please file any such documents.

Response

None of the hydroelectric projects for which OPG filed a business case summary ("BCS") has required a superseding BCS.

CCC Interrogatory #018

Ref: Ex. D2-T1-S1, page 2

Issue Number: 4.5

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the nuclear business appropriate and supported by business cases?

Interrogatory

The evidence states that the nuclear project portfolio is approved via the OPG business planning process with the Board of Directors approving the OM&A and Capital Projects portfolio budget. Please provide copies of all presentations and reports presented to the Board of Directors when seeking approval of the nuclear project portfolio.

Response

The nuclear project portfolio is presented to the Board of Directors as part of the Nuclear Operations Business Plan (Ex. F2-T2-S1 Attachment 1, page 18 and 20/21). There are no other presentations or reports presented to the Board of Directors seeking approval of the nuclear project portfolio.

CCC Interrogatory #019

Ref: Ex. D2-T2-S1, page 1

Issue Number: 4.5

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the nuclear business appropriate and supported by business cases?

Interrogatory

Please explain specifically how the Darlington Refurbishment project reduces the revenue requirement by \$207.5 million during the test period.

Response

The derivation of the net revenue requirement reduction of \$207.5M resulting from the Darlington Refurbishment project is provided in Ex. D2-T2-S1, Table 2. The specific aspects of revenue requirement affected by the project are outlined in Ex. D2-T2-S1, page 4, lines 8-17.

CCC Interrogatory #020

Ref: Ex. D2-T2-S1, page 2

Issue Number: 4.5

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the nuclear business appropriate and supported by business cases?

Interrogatory

Please explain the relationship between the Darlington Refurbishment and the Bruce Lease costs.

Response

The impact of the Darlington Refurbishment on Bruce Lease costs is a revenue requirement reduction of \$54.4M for the test period as presented in Ex. D2-T2-S1, Chart 1. The primary impacts result from the \$293M increase in both Asset Retirement Obligations ("ARO") and Asset Retirement Costs ("ARC") described in Ex. C2-T1-S2, section 4.1 and the consequential impact on depreciation expense, accretion and used fuel storage and disposal variable expenses.

This increase in ARO/ARC has been allocated to the stations and has resulted in decreases to both the ARO and ARC for the Bruce facilities as presented in Ex. C2-T1-S2, Table 3 and as described in interrogatory L-1-132.

With respect to the Bruce facilities, the lower ARO has resulted in lower accretion costs of \$18.3M for the test period, and the lower ARC has resulted in lower depreciation costs of \$40.2M for the test period. In addition, the Darlington Refurbishment project has resulted in higher used fuel storage and disposal variable expenses for the Bruce facilities of \$4.2M for the test period as shown in Ex. C2-T1-S2, Table 4, line 8.

CCC Interrogatory #021

Ref: Ex. D2-T2-S1, page 2

Issue Number: 4.5

Issue: Are the capital budgets and/or financial commitments for 2011 and 2012 for the nuclear business appropriate and supported by business cases?

Interrogatory

OPG indicates that the LUEC of the Darlington Refurbishment is 8 cents/kWh. Did OPG retain any outside expertise to assess those numbers. If not, why not? If so, please provide any such studies.

Response

The interrogatory incorrectly states that OPG indicates that the Levelized Unit Energy Cost ("LUEC") of the Darlington Refurbishment is \$0.08/kWh. OPG has high confidence that the project will have a LUEC of between \$0.06/kWh and \$0.08/kWh (2009 dollars) as stated at Ex. D2-T2-S1, page 5, line 1.

OPG did not retain any outside expertise to assess the LUEC of Darlington Refurbishment. The calculation of LUEC is an activity for which OPG has significant internal expertise.

As described at Ex. D2-T2-S1, pages 11-12, OPG has entered into the project definition phase for the Darlington Refurbishment project. OPG will be completing a detailed cost estimate for Darlington Refurbishment. A release quality project cost and schedule will be prepared at the end of the definition phase in 2014. OPG will have a third party review of the release quality project cost estimate and other key assumptions. The release quality project cost estimate will be used as an input to the calculation of an updated LUEC at that time.

CCC Interrogatory #022

Ref: Ex. E2-T1-S1, page 6

Issue Number: 5.1

Issue: Is the proposed regulated hydroelectric production forecast appropriate?

Interrogatory

Please provide a detailed description of how OPG prepares its forecast of Surplus Baseload Generation.

Response

See the response to the interrogatory in Ex. L-01-035.

CCC Interrogatory #023

Ref: Ex. E1-T1-S2, pages 2-7

Issue Number: 5.1

Issue: Is the proposed regulated hydroelectric production forecast appropriate?

Interrogatory

In each year since 2007 OPG's hydroelectric production forecast has been understated relative to the actual production. Has OPG considered revising its forecasting methodology in light of this? If not, why not? Why should parties have confidence that the forecast numbers for the test period are appropriate?

Response

As shown in Ex. E1-T1-S2, Table 1, production forecast model results compare very well with actual production results when actual flows were used as model input ("imputed generation"). Therefore, OPG is not considering a major revision to its forecasting methodology, but, as discussed below, it is continuing to investigate refinements to its flow forecasting tools. The model's performance in forecasting production based on actual flows should provide parties with confidence in its accuracy, and the existence of the Hydroelectric Water Conditions Variance account insulates both customers and OPG from any variation between forecast and actual water conditions.

The challenge in improving the production forecast is to accurately forecast the Niagara and St. Lawrence River flows. There is a great deal of uncertainty associated with predicting natural systems, and changes in weather patterns can change flow trends within a relatively short time frame. OPG continues to carry out statistical analysis regarding the accuracy and potential bias of the flow forecasts. This analysis does not suggest that there is any systematic bias in the forecasted water flows.

As described in Section 4.0 of Ex. E1-T1-S2, relatively dry conditions meant that river flows were below normal when the forecast plans were prepared for the years 2007, 2008, and 2009. Based on water conditions in the upper Great Lakes basin and normal precipitation, it was assumed that the trend of below normal flows would continue. However, above normal precipitation in the Lake Erie basin in the fall of 2006 resulted in flows recovering to above normal levels during the first part of 2007, before dropping again to below normal for the remainder of the year. Above normal precipitation occurred again during the winter of 2008 and flows recovered to and remained around normal levels for much of 2008 and 2009.

In contrast to the aforementioned years, the forecast production plan for 2010 is expected to exceed actual production results for 2010. Actual production during the first half of 2010 is 2

1 per cent lower than that forecast. Actual flows during the first half 2010 have been lower than
2 forecast.

3
4 While not a fundamental change to the forecasting methodology, the Niagara Plant Group is
5 currently assessing the performance of the Advanced Hydrologic Prediction System
6 developed by the U.S. National Oceanic and Atmospheric Administration and adapted by the
7 Great Lakes Environmental Research Laboratory specifically for the Niagara River, as an
8 alternative flow forecasting tool to the traditionally used Hydrological Response Model for the
9 Great Lakes. Once sufficient experience is acquired with the new system over a variety of
10 hydrologic conditions to ascertain that similar or improved results are achieved, it is
11 anticipated that this new system will be implemented. In addition, the Niagara Plant Group
12 continues to assess and refine the minor adjustments that are applied to the flow forecast
13 values to reflect seasonal variations and retardation effects.

CCC Interrogatory #024

Ref: Ex. F1-T4-S1, Table 1

Issue Number: 6.1

Issue: Is the test period Operations, Maintenance and Administration budget for the regulated hydroelectric facilities appropriate?

Interrogatory

Please recast Table 1 setting out forecast amounts for the Gross Revenue Charge for the years 2007-2010.

Response

The requested information is provided in the Application at Ex. F1-T4-S2, Table 1, which shows both the actual and forecast (budget) amounts of Gross Revenue Charge ("GRC").

CCC Interrogatory #025

Ref: Ex. F3-T1-S1, page 1

Issue Number: 6.9

Issue: Are the “Centralized Support and Administrative Costs” (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

The corporate cost allocation methodology was reviewed by Black and Veatch. Please indicate if that work was tendered. If not, why not? What was the overall cost of the report and how are those cost to be recovered?

Response

Black & Veatch Inc. (“B&V”) was engaged to perform the corporate “Cost Allocation Review – 2009” under a sole source contract. The work was not competitively tendered. B&V had completed a similar study in 2006 for OPG, which the OEB had accepted. OPG decided that using the same consulting company and the same staff would result in lower costs and a more efficient process.

The overall cost of the report was \$37,500, the costs for which are recovered through the payment amounts.

CCC Interrogatory #026

Ref: Ex. F3-T1-S1, page 11

Issue Number: 6.9

Issue: Are the “Centralized Support and Administrative Costs” (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

The evidence indicates that OPG has completed a leveraged renegotiation of its outsourcing agreement with NHSS. Did OPG consider other service providers. Please provide evidence to support the premise that retaining NHSS was the most cost-effective approach for OPG.

Response

Yes, other service providers were considered prior to conducting a “leveraged renegotiation” of Information Technology outsourcing agreement with New Horizon System Solutions (“NHSS”). Prior to entering into renegotiation discussions with NHSS, independent consultants provided OPG with market-based cost savings targets. Cost savings achieved through renegotiation were greater than targets and enabled OPG to avoid significant transition costs and service disruption risks. Independent consultants reviewed the final results of the renegotiation and confirmed that the benefits articulated in the business case objectives were achieved.

CCC Interrogatory #027

Ref: Ex. F3-T1-S1, page 11

Issue Number: 6.9

Issue: Are the “Centralized Support and Administrative Costs” (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

The evidence states that the new agreement with NHSS will result in cost savings of about \$100 million by the end of the agreement. Please provide detailed evidence to support the calculation of this amount. How, specifically will those savings be achieved?

Response

The scope of IT services purchased under the new agreement remains unchanged compared to the previous agreement. They include:

- Infrastructure Management
- Application Management
- Data and Voice Network
- Data Centre
- Disaster Recovery
- End User
- Common Services
- Service Management

The un-inflated price for the above services was \$89.2M in 2009 just prior to the renewal. The new agreement delivers guaranteed price reductions for the same scope and volume over the life of the contract as follows:

- 2010 un-inflated pricing for base services is \$79.8M (decrease of \$9.4M).
- 2011 un-inflated pricing for base services is \$78.7M (incremental decrease of \$1.1M).
- 2012 un-inflated pricing for base services is \$77.6M (incremental decrease of \$1.1M).
- 2013 un-inflated pricing for base services is \$74.7M (incremental decrease of \$2.9M).
- 2014 un-inflated pricing for base services is \$72.6M (incremental decrease of \$2.1M).
- 2015 un-inflated pricing for base services is \$70.4M (incremental decrease of \$2.2M).

In addition, the new agreement delivers additional savings of about \$3.2M annually by moving to a fee-for-service approach for IT procurement and avoiding the mark-up on third-party support contracts and commodity hardware purchases.

1 The \$100M savings is summarized below.

2

Cost Savings 2010 - 2015				
<i>(millions of dollars)</i>				
<u>Reductions</u>	Base Services	Incremental	Third Party contracts	Total
2010	9.4	-	3.2	12.6
2011	9.4	1.1	3.2	13.7
2012	9.4	2.2	3.2	14.8
2013	9.4	5.1	3.2	17.7
2014	9.4	7.2	3.2	19.8
2015	9.4	9.4	3.2	22.0
Total	56.4	25.0	19.2	100.6

3

CCC Interrogatory #028

Ref: Ex. F3-T1-S2, Tables 1-2

Issue Number: 6.9

Issue: Are the “Centralized Support and Administrative Costs” (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

Please provide a detailed variance analysis for each of the specific categories of Corporate Support and Administrative Costs. In addition, please explain why in each year 2007-2009 OPG actual costs were below budget by, in some cases significant amounts.

Response

The detailed variance analysis for each of the specific categories of Corporate Support and Administrative Costs are provided below for regulated Hydroelectric and Nuclear. The analysis included explanations for variance greater than \$1M or 10 per cent.

The explanations for why each year’s actual costs were below budget are provided in Ex. F3-T1-S2.

REGULATED HYDROELECTRIC (Ex. F3-T1-S2 and Table 1)

Business Services and Information Technology

Variance for 2010 Budget versus 2009 Actual (\$1.4M)

The 2010 budget decreases by \$1.4M versus the 2009 actual mainly due to savings in Information Technology as a result of a renegotiated outsourcing agreement with New Horizon System Solutions (“NHSS”) partially offset by increases in facility and utility costs due to escalation and non-recoverable HST on utilities in Real Estate.

Variance for 2008 Actual versus 2008 Budget (\$1.5M)

The 2008 actual decreased by \$1.5M versus 2008 budget mainly due to lower costs related to Information Technology special initiatives, and lower than planned labour costs due to hiring lags, delay in 700 University Avenue window replacement, and lower printing and graphics costs in Real Estate.

Variance for 2008 Actual versus 2007 Actual \$1.5M

The 2008 actual increased by \$1.5M versus 2007 actual mainly due to higher costs for the Hydroelectric boundary project and higher allocation costs driven by the increase in capital spending by regulated hydroelectric on the Niagara Tunnel project.

Finance

Variance for 2010 Budget versus 2009 Actual (\$0.8M)

The 2010 budget decreases by \$0.8M versus 2009 actual mainly due to planned cost reduction initiatives, partly offset by increased audit fees for the implementation of International Financial Reporting Standard ("IFRS").

Variance for 2009 Actual versus 2009 Budget (\$1.6M)

The 2009 actual decreased by \$1.6M versus 2009 budget mainly due to hiring lags, lower spending on implementation of IFRS and lower costs related to the internal control program.

Corporate Affairs

Variance for 2012 Plan versus 2011 Plan \$1.0M

The 2012 plan increases by \$1.0M versus 2011 plan mainly due to activities associated with the OEB payment amounts hearing.

Variance for 2011 Plan versus 2010 Budget (\$0.6M)

The 2011 plan decreases by \$0.6M versus 2010 plan mainly due to lower pandemic influenza costs, lower costs related to the activities associated with the OEB payment amounts hearing and planned costs reduction initiatives.

Variance for 2010 Budget versus 2009 Actual \$1.8M

The 2010 plan increases by \$1.8M versus 2009 actual mainly due to higher costs related to the activities associated with the OEB payment amounts hearing, pandemic influenza costs and initiatives related to water safety, community and sponsorship advertising.

Variance for 2009 Actual versus 2008 Actual (\$0.8M)

The 2009 actual decreased by \$0.8M versus 2008 actual mainly due to lower costs related to the activities associated with the OEB payment amounts hearing partly offset by increased pandemic influenza costs.

Variance for 2008 Actual versus 2007 Actual \$2.4M

The 2008 actual increased by \$2.4M versus 2007 actual mainly due to higher costs related to the activities associated with the OEB payment amounts hearing, initiatives related to water safety, community and sponsorship advertising and economic increases.

1 **Corporate Centre**

2
3 Variance for 2012 Plan versus 2011 Plan \$0.5M

4 The 2012 plan increases by \$0.5M versus 2011 plan mainly due to legal costs related to the
5 OEB payment amounts hearing.

6
7 Variance for 2011 Plan versus 2010 Budget (\$0.3M)

8 The 2011 plan decreases by \$0.3M mainly due to legal costs related to activities associated
9 with the OEB payment amounts hearing.

10
11 Variance for 2010 Budget versus 2009 Actual \$0.7M

12 The 2010 plan increases by \$0.7M versus 2009 actual mainly due to legal costs related to
13 activities associated with the OEB payment amounts hearing.

14
15 Variance for 2009 Actual versus 2009 Budget (\$1.1M)

16 The 2009 actual decreased by \$1.1M versus 2009 budget mainly due to lower legal costs
17 related to activities associated with the OEB payment amounts hearing and a reduction in the
18 number of senior executives reporting to the President.

19
20 Variance for 2009 Actual versus 2008 Actual (\$0.6M)

21 The 2009 actual decreased by \$0.6M versus 2008 actual mainly due to the reduction in the
22 number of senior executives reporting to the President and lower legal costs related to
23 activities associated with the OEB payment amounts hearing.

24
25 Variance for 2008 Actual versus 2008 Budget (\$0.3M)

26 The 2008 actual decreased by \$0.3M versus 2008 budget mainly due to hiring lags.

27
28 Variance for 2007 Actual versus 2007 Budget (\$0.3M)

29 The 2007 actual decreased in 2007 versus 2007 budget mainly due lower labour rates
30 created by higher than expected staff turnover.

31
32
33 **NUCLEAR (Ex. F3-T1-S2, Table 2)**

34
35 **Business Services and Information Technology**

36
37 Variance for 2011 Plan versus 2010 Budget \$2.6M

38 The 2011 plan increases by \$2.6M versus 2010 plan mainly due to increases for
39 infrastructure and application maintenance in Information Technology, and increases for
40 facility and utility costs due to escalation and non-recoverable HST on utilities in Real Estate.

41
42 Variance for 2010 Budget versus 2009 Actual \$4.6M

43 The 2010 budget increases by \$4.6M versus 2009 actual mainly due to higher support costs
44 for Nuclear projects in Information Technology, and increases for facility and utility costs due
45 to escalation and non-recoverable HST on utilities in Real Estate.

Variance for 2009 Actual versus 2009 Budget (\$20.7M)

The 2009 actual decreased by \$20.7M versus 2009 budget mainly due to lower costs relating to special initiatives and profit sharing under the terms of the NHSS contract in Information Technology. Cost reductions were also achieved as a result of lower than planned labour costs due to hiring lags and lower than planned facility and utility costs in Real Estate.

Variance for 2008 Actual versus 2008 Budget (\$21.3M)

The 2008 actual decreased by \$21.3M versus 2008 budget mainly due to lower costs relating to special initiatives and profit sharing under the terms of the NHSS contract in Information Technology. Cost reductions were also achieved as a result of lower than planned labour costs due to hiring lags, delay in 700 University Avenue window replacement, and lower printing and graphics costs in Real Estate.

Variance for 2007 Actual versus 2008 Actual (\$8.7M)

The 2007 actual decreased by \$8.7M versus 2008 actual mainly due to lower than planned costs in short term services from NHSS and hardware purchases in Information Technology and decreased furniture and office equipment purchases, and facility repairs and maintenance costs in Real Estate.

Variance for 2007 Actual versus 2007 Budget (\$4.7M)

The 2007 actual decreased by \$4.7M versus 2007 budget mainly due to lower costs relating to profit sharing under the terms of the NHSS contract in Information Technology, and lower than planned labour costs due to hiring lags in Real Estate.

Finance

Variance for 2009 Actual versus 2008 Actual \$3.2M

The 2009 actual increased by \$3.2M mainly due to increase support for nuclear projects and economic increases.

Variance for 2008 Actual versus 2008 Budget (\$3.0M)

The 2008 actual decreased by \$3.0M versus 2008 budget mainly due to hiring lags, unplanned transfer of costs for work directly related to major nuclear projects and lower external purchases.

Human Resources

Variance for 2007 Actual versus 2007 Budget (\$2.6M)

The 2007 actual decreased by \$2.6M versus 2007 budget mainly due to hiring lags, lower than planned external purchased services.

Corporate Affairs

Variance for 2012 Plan versus 2011 Plan \$1.5M

The 2012 plan increases by \$1.5M versus 2011 plan mainly due to activities associated with the OEB payment amounts hearing.

Variance for 2011 Plan versus 2010 Budget (\$1.9M)

The 2011 plan decreases by \$1.9M versus 2010 budget mainly due to lower pandemic influenza costs, lower costs related to the OEB payment amounts hearing and planned costs reduction initiatives.

Variance for 2010 Budget versus 2009 Actual \$5.8M

The 2010 plan increases by \$5.8M versus 2009 actual mainly due to higher costs related to activities associated with the OEB payment amounts hearing, pandemic influenza costs, initiatives related to community and sponsorship advertising, and economics increases.

Variance for 2009 Actual versus 2009 Budget (\$10.1M)

The 2009 actual decreased by \$10.1M versus 2009 budget mainly due to lower costs for activities associated with the OEB payment amounts hearing, initiatives related to community and sponsorship advertising, pandemic influenza costs and hiring lags.

Variance for 2009 Actual versus 2008 Actual (\$3.0M)

The 2009 actual decreased by \$3.0M versus 2008 actual mainly due to the lower costs related to community and sponsorship advertising, and costs related to activities associated with the OEB payment amounts hearing partly offset by increased pandemic influenza costs, and economic increases.

Variance for 2008 Actual versus 2008 Budget (\$7.5M)

The 2008 actual decreased by \$7.5M versus 2008 budget mainly due to lower costs related to activities associated with the OEB payment amounts hearing, lower pandemic influenza costs, membership fees and hiring lags partly offset by higher costs related to community and sponsorship advertising.

Variance for 2008 Actual versus 2007 Actual \$3.6M

The 2008 actual increased by \$3.6M versus 2007 actual mainly due to costs related to activities associated with the OEB payment amounts hearing, increased costs related to community and sponsorship advertising and economic increases.

Variance for 2007 Actual versus 2007 Budget (\$1.2M)

The 2007 actual decreased by \$1.2M versus 2007 budget mainly due to hiring lags and lower cost related to activities associated with the OEB payment amounts hearing.

Corporate Centre

Variance for 2012 Plan versus 2011 Plan \$1.0M

The 2012 plan increases by \$1.0M versus 2011 plan mainly due to legal costs related to activities associated with the OEB payment amounts hearing.

Variance for 2010 Budget versus 2009 Actual \$1.8M

The 2010 plan increases by \$1.8M versus 2009 actual mainly due to legal costs related to activities associated with the OEB payment amounts hearing, economics increases.

Variance for 2009 Actual versus 2009 Budget (\$1.8M)

The 2009 actual decreases by \$1.8M versus 2009 budget mainly due to lower legal costs related to activities associated with the OEB payment amounts hearing and a reduction in the number of senior executives reporting to the President.

Variance for 2009 Actual versus 2008 Actual (\$2.3M)

The 2009 actual decreased by \$2.3M versus 2008 actual mainly due to a reduction in the number of senior executives reporting to the President and lower legal costs related to activities associated with the OEB payment amounts hearing.

Variance for 2008 Actual versus 2007 Actual \$1.7M

The 2008 actual increases by \$1.7M versus 2007 actual mainly due to higher legal costs related to activities associated with the OEB payment amounts hearing, legal costs related to the Bruce lease arbitration and economic increases.

Variance for 2007 Actual versus 2007 Budget (\$1.2M)

The 2007 actual decreased by \$1.2M versus 2007 budget mainly due to lower labour rates created by higher than expected staff turnover and unplanned transfer of costs for legal work directly related to major nuclear projects.

CCC Interrogatory #029

Ref: Ex. F3-T1-S1

Issue Number: 6.9

Issue: Are the “Centralized Support and Administrative Costs” (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

Please set out a table which includes the following:

- a) All regulatory costs in each year 2007-2012 including all internal and external costs;
- b) All regulatory costs associated with the 2008/2009 payments proceedings;
- c) All proposed costs associated with the 2011/2012 proceeding;
- d) An explanation as to how those costs are to be recovered.

Response

a), b) and c)

Please see Ex. L-01-103.

- e) All forecast costs associated with the 2011 - 2012 proceeding are proposed for recovery through OPG’s proposed payment amounts.

CCC Interrogatory #030

Ref: Ex. F4-T3-S1, page 2

Issue Number: 6.8

Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

Please indicate how many, of the total employee headcounts set out in Chart 1 earn over \$100,000 on an annual basis.

Response

Below is a chart indicating how many of the employees listed in Chart 1 on page 2 of Ex. F4-T3-S1 are also part of the Public Sector Salary Disclosure Act ("PSSDA") filing for 2009. The PSSDA requires OPG to list those employees whose T4 earnings reached or exceeded \$100,000 in any given year.

2009 PSSDA Staff Numbers by Representation - Regulated Business - Year End 2009					
	# of Employees ¹				
	Nuclear ²		Regulated Hydro ²		
Representation	Regular	Non-Regular ³	Regular	Non-Regular ³	Totals
Management Group	751	3	47	0	802
Power Workers Union	2794	66	138	0	2997
Society of Energy Professionals	2275	12	80	1	2368
Totals	5820	81	265	1	6167
¹ Based on 2009 year end payroll data for active PSSDA employees with a base salary payment in their home base positions					
² Includes 2009 allocation (61% to Nuclear and 5.2% to Hydro) of corporate support functions staff to both regulated business areas as well as allocation (29.5%) of Hydroelectric Central Support staff to the Regulated Hydro business.					
³ Non-Regular includes External Service Contractors assigned to appropriate representations					

CCC Interrogatory #031

Ref: Ex. F4-T3-S1, page 2

Issue Number: 6.8

Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

Please provide Charts in the same format as Chart 1 for the years 2007 and 2008 (Headcount)

Response

Below are the Charts for 2007 and 2008.

2007 Staff Numbers by Representation - Regulated Business - Year End 2007						
	# of Employees ¹					
	Nuclear ²		Regulated Hydro ²			
Representation	Regular	Non-Regular ³	Regular	Non-Regular ³	Totals	
Management Group	879	16	55	1	951	
Power Workers Union	4936	613	260	10	5819	
Society of Energy Professionals	2864	28	98	1	2991	
Totals	8679	656	413	12	9760	

1 Based on 2007 year end payroll data for active employees with a base salary payment in their home base

2 Includes allocation (61.2% to Nuclear and 5.6% to Hydro) of corporate support functions staff to both regulated business areas as well as allocation (23.2%) of Hydroelectric Central Support staff to the Regulated Hydro business.

3 Non-Regular includes External Service Contractors assigned to appropriate representations.

1

2008 Staff Numbers by Representation - Regulated Business - Year End 2008					
	# of Employees ¹				
	Nuclear ²		Regulated Hydro ²		
Representation	Regular	Non-Regular ³	Regular	Non-Regular ³	Totals
Management Group	927	16	65	1	1008
Power Workers Union	5051	655	279	12	5997
Society of Energy Professionals	2929	44	118	2	3093
Totals	8907	714	462	15	10098

¹ Based on 2008 year end payroll data for active employees with a base salary payment in their home base positions

² Includes allocation (61.0% to Nuclear and 6.7% to Hydro) of corporate support functions staff to both regulated business areas as well as allocation (30%) of Hydroelectric Central Support staff to the Regulated Hydro business.

³ Non-Regular includes External Service Contractors assigned to appropriate representations

2

CCC Interrogatory #032

Ref: Ex. G1-T1-S1, Table 1

Issue Number: 7.1

Issue: Are the proposed test period regulated hydroelectric business revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

Please explain why, in all revenue categories actual revenues exceeded budget/board approved amounts

Response

The statement in the question is incorrect. As shown in Ex. G1-T1-S2, Table 1, in 2009 the budgeted amounts for both Segregated Mode of Operation and Water Transactions exceeded the actual revenues. Please refer to the "Comparison of Regulated Hydroelectric Other Revenues" Ex. G1-T1-S2 for comparison details.

CCC Interrogatory #033

Ref: Ex. G2-T2-S1

Issue Number: 7.3

Issue: Are the proposed test period nuclear business non-energy revenues appropriate?

Interrogatory

OPG retained Black and Veatch to review OPG's methodology for assigning and allocating revenues and costs to the Bruce Facilities under the Bruce Lease. Please provide the terms of reference for the study. Was the study tendered? If not, why not?

Response

Black & Veatch Inc. ("B&V") was engaged to perform a review of the Centralized Support and Administrative Costs Allocation Methodology as explained in Ex. L-04-025. B&V completed a similar review in 2006 for OPG, but this review did not include OPG's methodology for assigning and allocating revenues and costs to the Bruce facilities under the Bruce Lease. The 2009 review, however, was expanded beyond the scope of the 2006 review to include the methodology for the Bruce facilities. The underlying principles of OPG's allocation methodology are consistently applied to both corporate cost and Bruce Facility revenue and costs by applying the appropriate driver to each component. On that basis, OPG decided that using the same consulting company and the same staff would result in lower costs and a more efficient process.

The terms of reference for the engagement are provided in Attachment 1.



BLACK & VEATCH
Building a world of difference.

June 11, 2009

Ms. Lubna Ladak
Mr. Tom Staines
Ontario Power Generation Inc.
Proposal Depository, HG103
700 University Avenue
Toronto, Ontario
Canada M5G 1X6

Dear Ms. Ladak and Mr. Staines:

Black & Veatch Canada Company ("B&V" or "we") is pleased to submit this Proposal to Ontario Power Generation Inc. ("OPG") to perform a Cost Allocation Review – 2009 ("2009 Review").

B&V performed a Cost Allocation Methodology Review for OPG in 2006 ("2006 Review") and issued our Report dated April 30, 2006 ("2006 Report"). The purpose of the 2006 Review was to evaluate whether the methodology employed by OPG separates Support and Administrative Costs ("CSA Costs") among regulated nuclear, regulated hydroelectric and unregulated operations in a manner that meets current best practices and is consistent with precedents on cost allocation established by the Ontario Energy Board ("OEB"), and to make appropriate recommendations to OPG.

Proposed Scope of Work

We understand that OPG will apply the same methodology in allocating CSA Costs in its rate application to be presented to the OEB in the first quarter of 2010. B&V's Proposal for the Scope of Work, developed based on discussions with you, comprises:

- Review OPG's allocation of CSA Costs among regulated, regulated hydroelectric, and unregulated operations to determine if it is consistent with the method used by OPG and reviewed by B&V in connection with the 2006 Report, is consistent with standard regulatory practices, and is appropriate for the business of OPG. Our review will include:
 - Review the business of OPG and its organization, including the departmental costs included in CSA Costs;
 - Evaluate the methodology including design, use of direct assignment, selection of cost drivers, and evaluation of the three pronged test as it applies to OM&A and the asset service fee;
 - Test that the methodology is appropriately applied to the CSA costs in OPG's rate application.
 - Allocation of CSA and nuclear support groups costs to the nuclear new build project.

Ms. Lubna Ladak
Mr. Tom Staines
Ontario Power Generation Inc.
June 11, 2009

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- Allocation of costs and revenues to the stations on lease to Bruce Power.
- Prepare a written report on our work of comparable depth to the 2006 Report.

Project Team

Mr. Stephen A. Stolze will be responsible for the timely completion of the project in accordance with the Proposed Scope of Work.

The project will be managed by Howard Gorman, who completed the 2006 Review as well as several similar assignments for Hydro One (which is regulated by the OEB). Mr. Gorman will manage the project on a day-to-day basis.

Other Black & Veatch consultants will be supporting Mr. Gorman as necessary.

Proposed Budget, Schedule, and Terms and Conditions

Budget

We will bill on a time and material basis for this work. The hourly rate for Mr. Gorman, effective at least through March 31, 2010, is US\$290 / hour. Other consulting personnel, as needed, will be billed at rates as agreed with OPG. Our estimate of the consulting fees for the Project Scope of Work outlined above is US\$100,000.

Out-of-pocket expenses including travel are in addition to consulting fees and are billed at actual cost.

All amounts will be billed in U.S. Dollars.

Schedule

We will commence work within two weeks of your acceptance of this Proposal. The work will be completed in two phases, to promote the efficient use of resources for OPG and for B&V. In Phase 1, B&V will review OPG's CSA methodology, and other allocation issues, and, and will review the spreadsheets and other models used by OPG to implement the methodology. The Phase I deliverable will consist of a brief report stating our findings including exceptions, recommendations and / or endorsement. Phase 1 will be completed by August 31, 2009, assuming our work commences by June 30, 2009.

In Phase 2, we will review the calculations made and the results of the CSA cost allocation methodology, as well as application of the methodology in OPG's rate application, and any other work performed by B&V on this project. Phase 2 also includes preparation of a written report suitable for inclusion in OPG's Rate Case filing. Phase 2 will be completed in February 2010; the schedule will be developed by OPG and B&V based on OPG's anticipated filing date and the availability of information.

Terms and Conditions

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Ontario Power Generation Inc.
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We anticipate completing a contract on mutually satisfactory terms as soon as practical. Our estimate of consulting fees and schedule is based on the following assumptions:

- Commencement of work by June 30, 2009.
- Receipt of all materials and information requested on a timely basis.
- Access to OPG personnel as requested on a timely basis, and assignment of adequate personnel to the project.
- No significant exceptions are found; if significant exceptions are found it could add 15% to 25% to the cost.
- Our work will rely on the genuineness and completeness of all documents and information presented to us by OPG, without independent confirmation.

We have been pleased to work with OPG in supporting its CSA cost allocation methodology in the past and its successful submittal to the OEB. We look forward to continuing to work with you.

We anticipate doing this work under OPG Purchase Order 4400027315 dated February 11, 2009.

If further information is required, please contact Howard Gorman at (631) 348-4090 ext 207 or me at (631) 348-4090 ext 205, or e-mail GormanHS@bv.com or RuddenRJ@bv.com

Ms. Lubna Ladak
Mr. Tom Staines
Ontario Power Generation Inc.
June 11, 2009

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Very truly yours,



Richard J. Rudden
Vice President
Black & Veatch Canada Company

C: Russell Feingold; Howard Gorman, Steve Stolze

Accepted for Ontario Power Generation Inc.

Name: Lubna Ladak
Lubna Ladak
Title: Director, Regulatory Finance
Date: July 2, 2009

CCC Interrogatory #034

Ref: Ex. G2-T2-S1

Issue Number: 7.3

Issue: Are the proposed test period nuclear business non-energy revenues appropriate?

Interrogatory

Please explain, how if at all, Surplus Baseload Generation impacts the Bruce Lease payments.

Response

Surplus Baseload Generation would not impact the lease payments Bruce Power makes to OPG unless there was a situation where a Bruce Power unit was shut down for the entire year (January 1 to December 31). In this case, OPG would receive no supplemental rent payments for that unit as per the terms of the lease agreement.

CCC Interrogatory #035

Ref: Ex. I-T2-S1, Table 1

Issue Number: 9.1

Issue: Is the design of regulated hydroelectric and nuclear payment amounts appropriate?

Interrogatory

Please provide a schedule setting out the payment amounts in the same format for 2008 and 2009.

Response

The referenced table setting out the payment amounts for 2008 and 2009 is provided below.

Payment Amount and Rider - Regulated Hydroelectric
Test Period April 1, 2008 to December 31, 2009

Line No.	Description	Test Period
		(a)
	<u>PAYMENT AMOUNT:</u>	
1	Revenue Requirement ¹ (\$M)	1,153.4
2	Forecast Production ² (TWh)	31.5
3	Payment Amount (\$/MWh) (line 1 / line 2)	36.66
	<u>DEFERRAL AND VARIANCE ACCOUNT PAYMENT RIDER:</u>	
4	Recovery of Variance and Deferral Account Amounts ³ (\$M)	N/A
5	Payment Rider (\$/MWh) ³	N/A

Notes: (All references are to EB-2007-0905 Payment Amounts Order)

1. Appendix B, Table 1, line 3

2. Appendix B, Table 1, line 4

Witness Panel: Deferral and Variance Accounts, Payment Amounts and Regulatory Treatments

Filed: 2010-08-12
EB-2010-0008
Issue 9.1
Exhibit L
Tab 4
Schedule 035
Page 2 of 2

- 1 3. Recovery of deferral and variance account balances was through the payment amount
- 2 and not through a rider.

CCC Interrogatory #036

Ref: Ex. I1-T3-S1, Table 1

Issue Number: 9.1

Issue: Is the design of regulated hydroelectric and nuclear payment amounts appropriate?

Interrogatory

Please provide a schedule setting out the payment amounts in the same format for 2008 and 2009

Response

The referenced table setting out the payment amounts for 2008 and 2009 is provided below.

Table 1
Payment Amount and Rider - Nuclear
Test Period April 1, 2008 to December 31, 2009

Line No.	Description	Test Period
		(a)
	<u>PAYMENT AMOUNT:</u>	
1	Revenue Requirement ¹ (\$M)	4,674.8
2	Forecast Production ² (TWh)	88.2
3	Payment Amount (\$/MWh)	52.98
	(line 1 / line 2)	
	<u>DEFERRAL AND VARIANCE ACCOUNT PAYMENT RIDER:</u>	
4	Recovery of Variance and Deferral Account Amounts ³ (\$M)	176.2
5	Payment Rider (\$/MWh) ⁴ (line 4 / April 2008 - Dec 2009 Production)	2.00

Notes: (All references are to EB-2007-0905 Payment Amounts Order)

- Appendix C, Table 1, line 5
- Appendix C, Table 1, line 6
- Appendix D, Table 1, line 5, column (f)
- Appendix D, Table 1, line 9, column (f)

Witness Panel: Deferral and Variance Accounts, Payment Amounts and Regulatory Treatments

CCC Interrogatory #037

Ref: Ex. I1-T2, and I1-T3

Issue Number: 9.1

Issue: Is the design of regulated hydroelectric and nuclear payment amounts appropriate?

Interrogatory

Has OPG undertaken any studies (internally or externally) to determine whether other designs for the payments amounts might be more appropriate. If so, please provide copies of those studies.

Response

No.

CCC Interrogatory #038

Ref:

Issue Number: 12.1

Issue: When would it be appropriate for the Board to establish incentive regulation, or other form of alternative rate regulation, for setting payment amounts?

Interrogatory

The Board is seeking input on when it would be appropriate to establish incentive regulation, or some other form of regulation to set the payment amounts. What is OPG's position on this issue?

Response

See response to interrogatory L-1-150.

CCC Interrogatory #039

Ref:

Issue Number: 12.2

Issue: What processes should be adopted to establish the framework for incentive regulation, or other form of alternative rate regulation, that would be applied in a future test period?

Interrogatory

The Board is seeking input as to what processes should be adopted to establish the framework for incentive regulation, or other form of alternative regulation, that would be applied in a future test period. What are OPG's views on this issue?

Response

See response to the interrogatory in Ex. L-1-150.