



By electronic filing and by e-mail

September 23, 2010

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

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

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

Dear Ms Walli,

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

As solicitors for Canadian Manufacturers & Exporters ("CME"), we enclose our Motion Record seeking relief with respect to the failure by Ontario Power Generation Inc. ("OPG") to provide the information requested in CME Interrogatory Numbers 10(a) and 10(c). For the most part, this motion seeks the same relief requested by the Consumers Council of Canada ("CCC") in its Notice of Motion dated September 17, 2010.

For this reason, we have assumed that this motion will be heard together with CCC's motion on September 30, 2010, at 1:00 p.m. and have made the motion returnable at that time.

Materials filed with the Board in confidence and upon which we will be relying to support the relief requested by CCC and CME are excluded from the Motion Record.

We respectfully request that, for use by members of the Board hearing the motion next Thursday, September 30, counsel for Board Staff make three (3) hard copies of the confidential materials listed in CME's motion from documents the Board has in its files.

We assume that other process participants who have signed the Confidentiality Undertakings in this case and in Hydro One's case EB-2010-00002 will bring hard copies of these confidential materials to the hearing of the motions.

Please contact me if any further information is required.

Yours very truly,

Peter C.P. Thompson, Q.C.

PCT/slc
enclosure

c. Barbara Reuber (OPG)
Intervenors EB-2010-0008
Paul Clipsham (CME)

OTT01\420131\1

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an Application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* for an order or orders determining payment amounts for the output of certain of its generating facilities.

**MOTION RECORD OF
CANADIAN MANUFACTURERS & EXPORTERS ("CME")**

I N D E X	Tab #
Notice of Motion dated September 23, 2010	A
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OPG's response to CME Interrogatory Number 10	1
OPG's response to CCC Interrogatory Number 1	2
OPG's planning process evidence, Exhibit A2, Tab 2, Schedule 1	3
Memorandum of Agreement, Exhibit A1, Tab 4, Schedule 1, Attachment 2	4
Presentations made to OPG Directors on or about November 19, 2009, marked as Exhibit F2, Tab 1, Schedule 1, Attachment 1 (Confidential)	5
OPG Press Release dated March 29, 2010	6
Globe & Mail article dated May 6, 2010, entitled "Ontario utilities told not to bother with requests for rate increases"	7
OPG Press Release dated May 26, 2010	8
Toronto Star article dated May 26, 2010, entitled "OPG trims proposed hydro rate increase by 32%"	9
Technical Conference transcript dated August 26, 2010, pages 144 to 149, and Exhibits KT1.1 and JT1.10	10
Board Decision in proceeding EB-2010-0002 at Transcript Volume 1, September 20, 2010, at pages 41 to 42	11
Documents produced, in confidence, by Hydro One in proceedings before the Board, including the following Exhibits from the following proceedings:	12

- (a) Exhibit EB-2008-0187, 2009 Distribution IRM Rates Application, decided May 13, 2009, Confidential Exhibits K1.6, K1.7 and K1.8
- (b) EB-2009-0272, 2009 and 2010 Transmission Revenue Requirement and Rates, decided May 28, 2009, Confidential Exhibits K3.4 and K3.5
- (c) EB-2009-0096, 2010-2011 Distribution Rates, decided April 9, 2010, Confidential Exhibits H1, Tab 9, Schedule 4; H1, Tab 9, Schedule 44; and H1, Tab 13, Schedule 1
- (d) EB-2010-0002, 2011-2012 Transmission Rates, Exhibits KX1.2, KX1.3, KX1.4 and KX2.6
- (e) The presentation made by Hydro One management to its Board of Directors on May 13, 2010, filed in EB-2010-0002 as Exhibit I, Tab 3, Schedule 1

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an Application by Ontario Power Generation Inc. pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* for an order or orders determining payment amounts for the output of certain of its generating facilities.

NOTICE OF MOTION

The Canadian Manufacturers & Exporters ("CME") will make a motion to the Ontario Energy Board (the "Board") at 2300 Yonge Street, Toronto, Ontario, on Thursday, September 30, 2010, at 1:00 p.m. to be heard together with the motion brought by the Consumers Council of Canada ("CCC").

PROPOSED METHOD OF HEARING:

CME proposes that the motion be dealt with orally.

THE MOTION IS FOR:

1. An Order requiring Ontario Power Generation Inc. ("OPG") to produce the documents requested in CME Interrogatory number 10(a) and to provide a response to CME Interrogatory number 10(c)
2. An Order prior to the argument of this motion, and for the limited purpose of considering matters pertaining OPG's claim that the documents requested in CME Interrogatory Number 10(a) are inadmissible on the grounds of litigation privilege, requiring that the documents be provided to Board members hearing the motion for inspection; and
3. Such further and other relief as CME may request and the Board may grant.

THE GROUNDS FOR THE MOTION ARE:

1. OPG unjustifiably refuses to produce the documents on the grounds that they are irrelevant; or in the alternative, privileged; or in the further alternative, inadmissible because their prejudicial effect outweighs their probative value.
2. The documents are relevant for the following reasons:
 - (a) To support its requested increases in revenue requirement and payment amounts, OPG presents budgets for 2011 and 2012 derived from its planning process over a five year planning horizon;
 - (b) Presentation to OPG's Board of Directors of its Business Plans and approvals thereof are integral to OPG's planning process;
 - (c) The requested documents were prepared by OPG in response to informal directives received from its owners asking OPG to respond to the public concern over electricity price increases;
 - (d) The documents were prepared to outline and obtain approval of the application that forms the subject matter of this proceeding from OPG's Directors;
 - (e) The documents are relevant to an examination of OPG's witnesses with respect to the criteria applied and the adequacy of OPG's response to public concerns over electricity price increases;
 - (f) The documents are relevant to a consideration of OPG's revised Business Plans provided to the Minister of Energy and the Minister of Finance pursuant to the Memorandum of Agreement;
 - (g) The documents requested are analogous to business plan documents already produced by OPG in these proceedings in confidence;
 - (h) The documents requested are analogous to documents produced by Hydro One Networks Inc. ("Hydro One") in prior cases and recently ordered to be produced

in the Hydro One proceeding EB-2010-0002 currently being heard by the Board;
and

- (i) Such further and other reasons as counsel may advise and the Board permits.
3. The documents should be produced to Board Panel members for inspection prior to hearing argument with respect to OPG's claim that the documents are inadmissible on the grounds of litigation privilege for the following reasons:
- (a) The reasons listed in paragraphs 2(a) to (i) inclusive of this Notice of Motion;
 - (b) Production of the requested documents for inspection prior to the argument of matters pertaining to litigation privilege is required to enable the parties opposite in interest to OPG to have a fair opportunity to rebut the assertions OPG makes about the privileged nature of the documents it seeks to exclude;
 - (c) There are inconsistencies between OPG's characterization of the documents it seeks to exclude on the grounds of litigation privilege and responses provided by OPG during the course of the Technical Conference;
 - (d) Rules 30.04 (6) and 30.06 of the *Rules of Civil Procedure*; and
 - (e) Such further and other reasons as counsel may advise and the Board permits.
4. The documents are not privileged for the following reasons:
- (a) Principles with respect to litigation privilege do not apply to presentations made to OPG's Directors that are integral to the approval of business plans from which OPG's application is derived;
 - (b) Documents directly related to OPG's pre-filed evidence cannot be excluded because they may have a prejudicial effect on OPG; and
 - (c) Such further and other grounds as counsel may advise and the Board permits.
5. OPG's refusal to produce documents is not responsive to CME Interrogatory Number 10(c) requesting a complete description of the criteria that were applied by OPG's Board

of Directors to conclude that a portion of the amount reflected in the application that was to have been filed in mid-April 2010 should not be claimed.

6. Such further and other grounds as counsel may advise and the Board permits.

THE FOLLOWING DOCUMENTARY MATERIAL AND EVIDENCE WILL BE RELIED UPON AT THE HEARING OF THE MOTION:

1. OPG's response to CME Interrogatory Number 10;
2. OPG's response to CCC Interrogatory Number 1;
3. OPG's planning process evidence, Exhibit A2, Tab 2, Schedule 1;
4. Memorandum of Agreement, Exhibit A1, Tab 4, Schedule 1, Attachment 2;
5. Presentations made to OPG Directors on or about November 19, 2009, marked as Exhibit F2, Tab 1, Schedule 1, Attachment 1 (Confidential);
6. OPG Press Release dated March 29, 2010;
7. Globe & Mail article dated May 6, 2010, entitled "Ontario utilities told not to bother with requests for rate increases";
8. OPG Press Release dated May 26, 2010;
9. Toronto Star article dated May 26, 2010, entitled "OPG trims proposed hydro rate increase by 32%";
10. Technical Conference transcript dated August 26, 2010, pages 144 to 149, and Exhibits KT1.1 and JT1.10;
11. Board Decision in proceeding EB-2010-0002 at Transcript Volume 1, September 20, 2010, at pages 41 to 42;
12. Documents produced, in confidence, by Hydro One in proceedings before the Board, including the following Exhibits from the following proceedings:
 - (a) Exhibit EB-2008-0187, 2009 Distribution IRM Rates Application, decided May 13, 2009, Confidential Exhibits K1.6, K1.7 and K1.8;

- (b) EB-2009-0272, 2009 and 2010 Transmission Revenue Requirement and Rates, decided May 28, 2009, Confidential Exhibits K3.4 and K3.5;
- (c) EB-2009-0096, 2010-2011 Distribution Rates, decided April 9, 2010, Confidential Exhibits H1, Tab 9, Schedule 4; H1, Tab 9, Schedule 44; and H1, Tab 13, Schedule 1;
- (d) EB-2010-0002, 2011-2012 Transmission Rates, Exhibits KX1.2, KX1.3, KX1.4 and KX2.6; and
- (e) The presentation made by Hydro One management to its Board of Directors on May 13, 2010, filed in EB-2010-0002 as Exhibit I, Tab 3, Schedule 1.

13. Such further and other material as counsel may advise and the Board permits.

September 23, 2010

BORDEN LADNER GERVAIS LLP

Barristers & Solicitors
World Exchange Plaza
Suite 1100 – 100 Queen Street
Ottawa, ON K1P 1J9

Peter C.P. Thompson, Q.C.

LSUC # A010952R
Tel (613) 237-5160
Fax (613) 230-8842
Lawyers for Moving Party,
Canadian Manufactures & Exporters

TO: Ontario Energy Board
Attention: Kirsten Walli, Board Secretary
Suite 2700 – 2300 Yonge Street
Toronto, ON M4P 1E4
Tel (416) 481-1967
Fax (416) 440-7656

AND TO: Ontario Power Generation Inc.
Attention: Barbara Reuber
700 University Avenue, H18-G2
Toronto, ON M5G 1X6

Tel (416) 592-5419
Fax (416) 592-8519

AND TO: All Parties of Record

OTT01\4196411\1

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15,
(Schedule B);

AND IN THE MATTER OF an Application by Ontario Power Generation Inc.
pursuant to section 78.1 of the *Ontario Energy Board Act, 1998* for an order or
orders determining payment amounts for the output of certain of its generating
facilities.

ONTARIO ENERGY BOARD

**NOTICE OF MOTION OF
CANADIAN MANUFACTURERS & EXPORTERS
("CME")**

(Motion returnable September 30, 2010)

BORDEN LADNER GERVAIS LLP
World Exchange Plaza
100 Queen Street
Suite 1100
Ottawa, ON K1P 1J9

Peter C.P. Thompson, Q.C.
Telephone (613) 787-3528
Facsimile (613) 230-8842

Counsel for Canadian Manufacturers & Exporters ("CME")

Brampton Engineering Inc. v. Alros Products Ltd. (1986), 8 C.P.C. (2d) 48 (Ont. Master)

Documents for which privilege is claimed should be described sufficiently to identify them but no details need be given which would enable the opposite party to discover indirectly the contents. The court required separate descriptions for each category of document with identification of the persons creating the documents and information about the dates of the documents.

Grossman v. Toronto Gen. Hosp. (1983), 41 O.R. (2d) 457, 35 C.P.C. 11, 146 D.L.R. (3d) 280 (H.C.)

An affidavit of documents must describe documents for which privilege is claimed and give information supporting the claim for privilege.

Miscellaneous

Cole v. Hamilton (City) (1999), 35 C.P.C. (4th) 321, 45 O.R. (3d) 235, 1999 Carswell-Ont 1443, [1999] O.J. No. 1783 (Gen. Div.)

A defendant who intends to move for summary judgment is nevertheless required to serve an affidavit of documents.

Elguindy v. Prince (2000), 129 O.A.C. 136, 43 C.P.C. (4th) 243, 2000 CarswellOnt 21 (Div. Ct.)

The Divisional Court reversed a decision deferring production of certain documents until after examination for discovery.

Atwater v. Gupta (1986), 12 C.P.C. (2d) 293 (Ont. Master)

There is no jurisdiction to order the deletion of documents from an affidavit of documents on the grounds of relevance.

C.I.B.C. v. Molony (1986), 8 C.P.C. (2d) 53 (Ont. H.C.)

The court refused to order production of documents referred to in the defendant's affidavit of documents where a supplementary affidavit was delivered pursuant to rule 30.07 indicating the documents were not in the defendant's possession, control or power.

Kap v. Sands (1980), 30 O.R. (2d) 125, (sub nom. *Zoltac v. Ross*) 22 C.P.C. 32 at 36; affirmed 22 C.P.C. 32 at 61 (H.C.)

Medical and hospital records regarding the plaintiffs or deceased persons for whose deaths the actions were brought are within the plaintiffs' power and should be listed in the affidavit of documents. It should not be necessary to move for an order requiring the hospitals and doctors to produce the documents.

INSPECTION OF DOCUMENTS

Request to Inspect

*

30.04 (1) A party who serves on another party a request to inspect documents (Form 30C) is entitled to inspect any document that is not privileged and that is referred to in the other party's affidavit of documents as being in that party's possession, control or power.

(2) A request to inspect documents may also be used to obtain the inspection of any document in another party's possession, control or power that is referred to in the originating process, pleadings or an affidavit served by the other party.

(3) A party on whom a request to inspect documents is served shall forthwith inform the party making the request of a date within five days after the service of the request to inspect documents and of a time between 9:30 a.m. and 4:30 p.m. when the documents may be inspected at the office of the lawyer

of the party served, or at some other convenient place, and shall at the time and place named make the documents available for inspection.

Documents to be Taken to Examination and Trial

(4) Unless the parties agree otherwise, all documents listed in a party's affidavit of documents that are not privileged and all documents previously produced for inspection by the party shall, without notice, summons or order, be taken to and produced at,

- (a) the examination for discovery of the party or of a person on behalf or in place of or in addition to the party; and
- (b) the trial of the action.

Court may Order Production

(5) The court may at any time order production for inspection of documents that are not privileged and that are in the possession, control or power of a party.

Court may Inspect to Determine Claim of Privilege

(6) Where privilege is claimed for a document, the court may inspect the document to determine the validity of the claim.



Copying of Documents

(7) Where a document is produced for inspection, the party inspecting the document is entitled to make a copy of it at the party's own expense, if it can be reproduced, unless the person having possession or control of or power over the document agrees to make a copy, in which case the person shall be reimbursed for the cost of making the copy.

Divided Disclosure or Production

(8) Where a document may become relevant only after the determination of an issue in the action and disclosure or production for inspection of the document before the issue is determined would seriously prejudice a party, the court on the party's motion may grant leave to withhold disclosure or production until after the issue has been determined.

O. Reg. 575/07, s. 1, item 13

Case Law

Production of Documents Referred to in Pleadings, Affidavit, etc. — rule 30.04(2)

Timminco Ltd. v. Asensio (March 4, 2009), Doc. CV-08-00354021, 2009 CarswellOnt 1135 (S.C.J.)

A party may not avoid producing a document mentioned in a pleading by amending the pleading to delete the reference.

Vaughan v. Ontario (Minister of Health) (1996), 49 C.P.C. (3d) 119, 2 O.T.C. 241 (Gen. Div.)

Where the plaintiff referred to his own medical records in his statement of claim, the court held that he had impliedly consented to their disclosure and ordered the mental health facility holding the records to produce them.

293818 Ont. Ltd. v. Forest Glen Shopping Centre Ltd. (1981), 22 C.P.C. 291 (Ont. Div. Ct.)

Where the plaintiff never had the document referred to in its pleading, its action was not dismissed because it could not produce it.

Risi Stone Ltd. v. Burloak Concrete Products Ltd. (1987), 24 C.P.C. (2d) 34, 17 C.I.P.R. 166, 19 C.P.R. (3d) 90 (Ont. H.C.)

The court ordered divided production and discovery in this action for infringement of copyright and passing off. Production and discovery on the issues of damages and profits would prejudice the defendants.

L.C.D.H. Audio Visual Ltd. v. I.S.T.S. Verbatim Ltd. (1986), 54 O.R. (2d) 425, 8 C.P.C. (2d) 141 (H.C.)

The court applied the following principles in deciding whether to divide discovery: (1) the decision is a discretionary one; (2) the modern philosophy is that all issues should be resolved in one trial; (3) discovery should be divided only in the clearest cases; (4) discovery should not be divided if the issues are not clearly severable; (5) if the issues are severable and serious prejudice would result to the moving party the court must then consider whether to exercise its discretion to divide discovery; and (6) the discretion must be exercised judicially.

Diamond v. Kaufman (1985), 1 C.P.C. (2d) 1 (Ont. Master)

The court ordered divided production and discovery where the defendants operated a computer software business and the plaintiff sought an accounting of the business's receipts and disbursements. The accounting would become necessary only if the plaintiff succeeded on the issue of liability. Disclosure of the information could result in serious prejudice to the defendants.

Can. Valve Ltd. v. Sweet (1985), 49 C.P.C. 178 (Ont. Master)

The court ordered divided discovery where the issues of liability and damages were distinct, there was some question as to the strength of the plaintiff's case and production of documents regarding damages would result in economic disadvantage to the defendants.

Re Machan and Machan (1979), 26 O.R. (2d) 473, 12 R.F.L. (2d) 247 (H.C.)

The court refused to stay delivery of a statement of property pending determination of the applicability of a separation agreement.

Blake v. Great Northern Financial Corp. (1978), 18 O.R. (2d) 744 (H.C.)

In an action for an accounting the court refused to postpone production of voluminous documentation until the question of entitlement to an accounting was determined.

Respirex of Can. Ltd. v. Flynn (1974), 5 O.R. (2d) 380 (Master)

Discovery relating to damages was postponed until it was established that there was a binding contract between the parties on which to base liability.

DISCLOSURE OR PRODUCTION NOT ADMISSION OF RELEVANCE

30.05 The disclosure or production of a document for inspection shall not be taken as an admission of its relevance or admissibility.

Case Law

Air Canada v. WestJet Airlines Ltd. (2006), 30 C.P.C. (6th) 321, 2006 CarswellOnt 2823, 267 D.L.R. (4th) 483, 81 O.R. (3d) 48 (S.C.J.)

In this case involving thousands of documents being produced electronically, the court refused the plaintiff's motion of an order confirming that if privileged documents were inadvertently produced, such productions would not constitute waiver of privilege or admission of relevance.

WHERE AFFIDAVIT INCOMPLETE OR PRIVILEGE IMPROPERLY CLAIMED

30.06 Where the court is satisfied by any evidence that a relevant document in a party's possession, control or power may have been omitted from

*

R. 30.06

RULES OF CIVIL PROCEDURE

the party's affidavit of documents, or that a claim of privilege may have been improperly made, the court may,

- (a) order cross-examination on the affidavit of documents;
- (b) order service of a further and better affidavit of documents;
- (c) order the disclosure or production for inspection of the document, or a part of the document, if it is not privileged; and
- (d) inspect the document for the purpose of determining its relevance or the validity of a claim of privilege.

Case Law

Leduc v. Roman (February 20, 2009), Doc. 06-CV-3054666PD3, 2009 CarswellOnt 843 (S.C.J.)

The court permitted the defendant to cross-examine on the plaintiff's supplementary affidavit or documents to determine whether private Facebook posting were relevant and should be produced.

Vector Transportation Services Inc. v. Traffic Tech Inc. (2008), 58 C.P.C. (6th) 364, 2008 CarswellOnt 1432 (S.C.J.); additional reasons (May 5, 2008), Doc. 05-CV-300129 PD2, 2008 CarswellOnt 2540 (S.C.J.)

The court ordered the defendant's laptop computer be inspected by a forensic data recovery expert to try to recover relevant e-mails.

Business Depot Ltd. v. Genesis Media Inc. (2000), 48 O.R. (3d) 402, 47 C.P.C. (4th) 270, 2000 CarswellOnt 1634, [2000] O.J. No. 1593 (S.C.J.)

The court required a party asserting a weak claim to pay most of the opposite party's costs of preparing a further and better affidavit of documents, which would require over 1,000 hours of work.

Heritage Clothing (Can.) Ltd. v. Sun Alliance Ins. Co. (1985), 4 C.P.C. (2d) 154 (Ont. H.C.); (leave to appeal to Ont. Div. Ct. denied September 30, 1985)

There is no time limit for production of a document for which privilege has been claimed.

Nelma Information Inc. v. Holt (1985), 50 C.P.C. 116 (Ont. H.C.)

The court ordered cross-examination on an affidavit of documents where many documents had been withheld and cross-examination appeared to be the most expeditious way of resolving the issues.

Bow Helicopters v. Textron Can. Ltd. (1981), 23 C.P.C. 212 (Ont. Master)

A motion for a further and better affidavit on production can be brought before examination for discovery. Further, an affidavit can be filed setting out the facts relied upon; however, that a document "ought to exist" is not a sufficient basis to order its production.

DOCUMENTS OR ERRORS SUBSEQUENTLY DISCOVERED

30.07 Where a party, after serving an affidavit of documents,

- (a) comes into possession or control of or obtains power over a document that relates to a matter in issue in the action and that is not privileged; or
- (b) discovers that the affidavit is inaccurate or incomplete,

the party shall forthwith serve a supplementary affidavit specifying the extent to which the affidavit of documents requires modification and disclosing any additional documents.

CME Interrogatory #010

Ref: Ex. A1-T3-S1, page 3
Ex. F4-T4-S1, pages 4-5
Ex. I1-T1-S2

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

- a) Produce, in confidence if necessary, all documents and other information presented to OPG's Board of Directors, including any information provided to OPG by its shareholder, that led to the decision to revise the application OPG intended to file in mid-April.
- b) Compared to the application OPG planned to file in mid-April 2010, what is the amount that OPG decided to refrain from claiming from ratepayers?
- c) What criteria were applied by OPG's Board of Directors to cause them to conclude that a portion of the amount reflected in the application that was to have been filed in mid-April should not be claimed?
- d) Assume that OPG's spending plans, in combination with the impacts of transitioning to more and more renewable energy sources, are likely to produce total bill increases for a typical or average residential consumer in an amount that exceeds, on average, 10% per year over five years. Under this assumption, does OPG have any suggestions as to what the OEB should do to constrain the total bill impacts on a typical residential customer to an amount that does not exceed, on average, 10% per year over the next five years?

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

1
2
3 **Response**
4

- 5 a) Please see response to the interrogatory in Ex. L-4-001, parts a) and b).
6
7 b) The impact of delaying the implementation of new payment amounts from January 1,
8 2011 to March 1, 2011 is estimated to be \$16M assuming that OPG's request is fully
9 approved.
10
11 c) Please see response to the interrogatory in Ex. L-4-001, part b).
12
13 d) No. The focus of OPG's activity before the OEB is on matters that relate to the
14 determination of just and reasonable payment amounts for the prescribed facilities or
15 directly impact OPG operations.

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

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754
www.ontario.ca/MEI

Ministère de l'Énergie
et de l'Infrastructure

Bureau du ministre

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416 327-6758
Télec.: 416 327-6754
www.ontario.ca/MEI

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: *Tom*

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

ONTARIOPOWER GENERATION

Tom Mitchell
President & Chief Executive Officer

Filed: 2010-08-12

EB-2010-0008

L-04-001

Attachment 2

700 University Avenue, H19 A24 Toronto, ON M5G 1X6

Tel: 416-592-2121 Fax: 416-592-2174
tom.mitchell@opg.com

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.

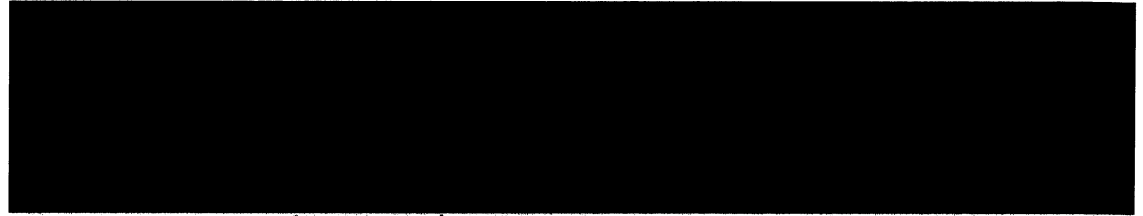
As you know, in response to the building public concern over electricity prices, OPG determined in mid-April that it would defer the filing of its application to allow us to consider alternatives that would further reduce the impact on customers. As a result of the work that we have done since then, 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
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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", is located above the printed name.

Tom Mitchell
President & Chief Executive Officer

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

BUSINESS PLANNING AND BUDGETING PROCESS

1.0 PURPOSE

This evidence presents an overview of OPG's business planning and budgeting process.

2.0 OVERVIEW

OPG's business planning and budgeting process is relevant to this Application because the revenue requirement requested for the regulated hydroelectric and nuclear facilities is based on OPG's 2010 – 2014 Business Plan.

Section 3.0 provides an overview of the business planning and budgeting process. Section 4.0 sets out the business planning guidelines for the 2010 – 2014 Business Plan and section 5.0 sets out how expenditures are classified, the objectives of OPG's investment programs and how project portfolios are developed across the company's business units. Section 6.0 describes the business case requirements for project release and section 7.0 describes the post-implementation review process following the completion of a project.

3.0 BUSINESS PLANNING AND BUDGETING – PROCESS OVERVIEW

OPG's business planning and budgeting process is a decentralized annual process undertaken within a consistent corporate framework of strategic objectives, resource guidelines, and costing assumptions. The key elements of this corporate framework are identified to the business units through business planning instructions provided by Finance. Within this framework, the individual business units develop their specific strategic and performance objectives, and then identify and plan the work required to achieve these objectives.

The key elements of the business planning process are as follows:

- The communication of the planning context.
- The identification of key operating, economic and other planning assumptions to be used in development and costing of plans, including:
 - Forecast escalation rates and burden rates for labour costing.

- 1 ○ Foreign exchange rate forecasts.
- 2 ○ Interest rate forecasts.
- 3
- 4 • The communication of the business planning framework is as follows:
- 5 ○ Communication of the business planning schedule including key timelines, milestones
- 6 and activities, through business planning instructions typically issued by Finance
- 7 during the second quarter.
- 8 ○ Communication of the regulatory framework, including variance and deferral
- 9 accounts, pricing structures, and any incentive mechanisms.
- 10
- 11 • Development of a consolidated revenue, sales and production forecast by OPG's Energy
- 12 Markets business unit, along with associated scenarios and sensitivities. This forecast
- 13 incorporates key production and reliability parameters from the nuclear and hydroelectric
- 14 business units.
- 15
- 16 • The preparation of a consolidated financial outlook by Finance, based on inputs received
- 17 from across the organization. Business units provide their planned OM&A, capital and
- 18 provision-funded expenditures. Finance develops a comprehensive financial outlook by
- 19 supplementing this information with the following elements:
- 20 ○ Forecast depreciation expense based on existing assets and forecasts of new
- 21 additions to the asset base.
- 22 ○ Forecast borrowing requirements and associated financing costs, which are reviewed
- 23 with OPG's Treasury department.
- 24 ○ Nuclear liabilities, which are based on the lifecycle cost estimates for nuclear waste
- 25 management and decommissioning programs, and the associated required
- 26 decommissioning and used fuel fund contributions.
- 27 ○ Income taxes payable which are forecast in conjunction with the Taxation
- 28 department.
- 29
- 30 • Each business unit's plan also identifies key risks to forecast results and mitigation
- 31 initiatives.

- 1 • Depending on the operational and/or financial issues facing OPG at the time, alternative
2 planning scenarios may be identified and modelled once the base case forecast has
3 been established.
4
- 5 • Individual business unit plans are reviewed with the President and Chief Executive
6 Officer ("CEO") and Chief Financial Officer ("CFO") through a series of presentations,
7 usually during September and early October. Business units incorporate feedback and
8 redirection from these sessions into updated submissions, typically in early November.
9
- 10 • The draft consolidated business plan, based on these updated submissions, is reviewed
11 by OPG senior management. The plan is also reviewed with shareholder representatives.
12 The 2010 – 2014 Business Plan was finalized for submission to the OPG Board in
13 November 2009 for approval.
14

15 **3.1 2010 - 2014 Business Planning Objectives**

16 The 2010 - 2014 Business Planning Instructions, issued on June 3, 2009, are provided in
17 Attachment 1. In setting the context for the planning process, the Instructions recognized the
18 significant challenges facing OPG as it enters a transition phase for much of its generation,
19 and the challenges its customers face in terms of significant economic turmoil. Major
20 initiatives that impact OPG's regulated operations include: the Darlington Refurbishment
21 Project (see Ex. D2-T2-S1), the Pickering B Continued Operations initiative (see Ex. F2-T2-
22 S3) and incorporating a "gap-based" approach to business planning in Nuclear (see Ex. F2-
23 T1-S1).
24

25 In response to the financial environment, business units were directed to be aggressive in
26 managing their costs while maintaining their critical performance objectives. Specifically, the
27 business planning guidelines for 2010 required an \$85M reduction in OM&A, compared to
28 previously planned levels for that year. Management's commitment to this reduction helped
29 offset the loss in revenue resulting from the deferral of the rate application.

Guidelines for subsequent years in the plan recognized the need to maintain strict expenditure control, and included:

- The continuation, into future years, of the 2010 cost reductions implemented by Nuclear.
- A direction to all corporate support groups that they freeze their future years' expenditure at 2010 levels.

OPG's business units responded by submitting plans that have met the financial targets. The cost reduction targets set by Finance are expected to be exceeded, with estimated savings across all business units of \$278M in 2011 - 2012, compared to the previous business plan. At the same time, OPG faced a number of cost increases for new initiatives, including increased expenditures on Pickering B Continued Operations. These increases total \$150M during 2011 - 2012, with the result that in 2011 - 2012, the total business unit expenditures are forecast to be \$128M lower than in OPG's previous business plan. Lower burden rates, primarily due to lower pension and Other Post-Employment Benefits ("OPEB") expense resulting from more favourable economic conditions, contribute an additional \$193M reduction to business unit costs over the two years.

4.0 BUSINESS UNIT ACTIVITIES

Business planning within the business units starts in the spring of the year prior to the period covered by the business plan with internal reviews of the current planning framework and confirmation and updating of business objectives and priorities. The business units also review the status of operational and performance plans and related capital and OM&A expenditures, as well as identification of emerging issues. This process is supplemented by additional planning direction identified at the corporate level. For example, as noted previously, the 2010 - 2014 corporate business planning guidelines identified a requirement to reduce 2010 OM&A by \$85M compared to the levels established in the previous plan. Out of this process, business unit objectives and priorities are determined.

Over the course of the early summer, initial plant and site business plans are developed. Business unit management reviews these proposals and prioritizes projects and expenditures to establish a preliminary business unit plan. Further details regarding business

1 planning and budgeting processes within the business units are provided in Ex. F1-T1-S1
2 and Ex. F2-T1-S1.

3
4 The business units present their preliminary plans to the CEO and CFO in late September or
5 early October. These presentations identify key assumptions, operational or functional
6 objectives, key risks and uncertainties, resource requirements and analyses of year-over-
7 year changes in requirements, as well as changes from previous plans. During these
8 sessions, the CEO or CFO provides redirection on these plans as required.

9
10 Business units then resubmit their plans, typically in October or early November, and plans
11 are consolidated into a final draft corporate plan. The updated corporate plan is then
12 presented to the OPG Board for approval.

13 14 **5.0 INVESTMENTS/PROJECTS**

15 **5.1 Classification of Expenditures**

16 Expenditures on investments or projects are classified in accordance with Canadian GAAP
17 ("GAAP") as capital, OM&A, or charges against a previously established liability. Previously
18 established liabilities include the liability for fixed asset removal and nuclear waste
19 management (as discussed in Ex. C2-T1-S1).

20
21 Expenditures that are classified as capital are recorded as either fixed or intangible assets.
22 Specifically, OPG capitalizes the following types of expenditures:

- 23 • Acquisition and construction of new assets: expenditures related to the purchase, design,
24 development, construction or commissioning of a new asset that will provide benefits
25 beyond the current year and meet or exceed the defined materiality threshold are
26 capitalized.
- 27 • Rehabilitation/improvement/maintenance of existing assets: expenditures related to
28 existing assets must meet all of the following criteria to be capitalized:
 - 29 ○ The benefits must extend beyond the current year.
 - 30 ○ The level of expenditure must meet or exceed the materiality threshold.
 - 31 ○ The expenditure must either extend the life or increase the output of the asset.

- Replacement: expenditures for the replacement of a significant component/complete capital asset are capitalized when the expenditures are expected to provide benefits beyond the current year and meet or exceed the materiality threshold.

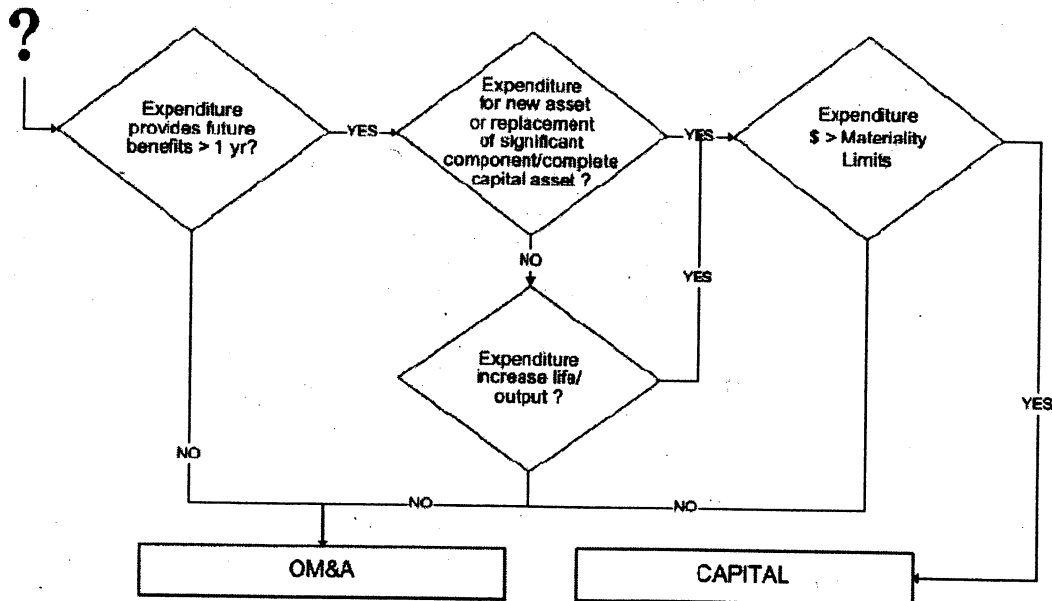
OPG capitalizes only those overhead costs that are directly attributable to the acquisition or construction of an asset. Overhead costs that are not directly attributable to the acquisition or construction of an asset such as the costs of the OPG Board, senior management, and most of the costs of support functions including finance, legal, office management and administration, and human resources, are expensed as incurred.

Expenditures that relate to a previously established liability are applied against the liability as incurred. The most significant example of such expenditures relates to nuclear decommissioning and used fuel management.

OM&A expenditures include general maintenance, repairs (up to and including major disassembly/overhaul), operating costs and other expenditures that do not meet the criteria for capitalization and do not relate to previously established liabilities. In addition, project development costs incurred prior to the date that an alternative is selected for implementation are charged to OM&A. The only exception is that payments to obtain an option to acquire property, plant, and equipment are capitalized when the option is exercised. Subject to the capitalization criteria above, project development costs are capitalized once the preferred alternative for a new capital asset or capital improvement to an existing asset is selected.

OPG's capitalization policy is summarized in the decision tree below:

CAPITALIZATION DECISION TREE



OPG applies the following thresholds for the materiality assessment included in the decision tree:

- Generating Asset Classes \$200k per generating unit
- Administrative/Service Buildings \$ 25k per building
- Telecom Equipment \$ 25k per item
- Minor Fixed Assets* \$ 25k per item
- Software \$200k per application

*Minor fixed assets include portable assets used in OPG's administrative, construction, transport or maintenance/service activities unless they are used directly for the generation of energy or form integral components of a building.

Materiality thresholds are applied on individual items rather than on an aggregated basis. Projects and/or work orders cannot be aggregated to qualify for capitalization. The exception to this principle applies to aggregated identical items purchased for a single generating unit,

1 or items that are part of a capital project where the project as a whole is evaluated against
2 the materiality threshold.

3
4 Following the adoption of CICA Handbook Section 3064 effective January 1, 2009, OPG
5 reclassified certain items previously considered to be fixed assets to intangible assets. These
6 items primarily included computer software. These intangible assets continue to be included
7 in OPG's rate base (Ex. B1-T1-S1) and as a result, this reclassification has no impact on
8 OPG's proposed revenue requirement.

9 10 **5.2 Asset Management**

11 OPG's investments and initiatives are targeted at programs that will result in increased
12 generating capacity, extended service lives, improved performance, and reduced long-term
13 operations and maintenance costs.

14
15 In addition to improving performance of its existing assets, OPG also evaluates development
16 initiatives with respect to its regulated facilities which can include plant life extensions, plant
17 redevelopments or new supply developments. These development initiatives are typically
18 larger in size, have higher risk profiles and longer time horizons than the projects held within
19 the business unit portfolios. These potential investments are subject to more rigorous internal
20 evaluations and scrutiny during the approval process and, often, external third party reviews,
21 prior to the decision to proceed. Examples for the regulated facilities include Darlington
22 Refurbishment, Pickering Continued Operations, and the Niagara Tunnel.

23 24 **5.3 Project Portfolios and Supporting Documentation**

25 As part of the business planning process, business units submit project lists that have been
26 prioritized to maximize value and address regulatory requirements while considering risks,
27 corporate business objectives, asset management processes, and preliminary funding
28 guidelines. All projects necessary to meet work program requirements and having cash flows
29 within the business plan time horizon are listed. The total cost of the projects must be within
30 the preliminary funding guidelines.

1 The project list is a snapshot of the project work intended to be done over the business plan
2 horizon. As time progresses, priorities may be re-set and the project list may change as
3 dictated by the needs of the business. Details regarding the prioritization process are
4 provided later in this schedule.

5
6 **5.3.1 Planning Business Cases**

7 "Planning" business cases, or project screening forms in nuclear, are required for major
8 projects (projects with cash flows of at least \$1M during the budget year and/or at least \$4M
9 in any of the future years of the business planning horizon) that are planned to commence
10 over the first two years of the plan. Inclusion of a project in the business plan does not
11 constitute approval to proceed with the project. Request for project approval and release of
12 funds to commence work on a project is a separate process and requires a more
13 comprehensive business case summary ("BCS"). Business case requirements for project
14 release are discussed later in this schedule. Planning business cases are a preliminary and
15 usually more condensed version of the full BCS.

16
17 Planning business cases are prepared by the project sponsor¹, with assistance and review
18 provided by the local controller. The extent of information provided in planning business
19 cases is commensurate with the nature of the project, the level of expenditure, and its stage
20 of development (and thus the level of information availability) at the time of inclusion in the
21 project listing.

22
23 Key information requirements for planning business cases include:

- 24 • need for the project
25 • the project's contribution to meeting OPG's business objectives
26 • results to be delivered
27 • quantifiable benefits
28 • alternatives considered

¹ Project sponsor is the individual responsible for issuing a project charter, managing and communicating the on-going business requirements related to the project and ensuring that a post implementation review is conducted as required.

- 1 • cash flow requirements
- 2 • impacts of not proceeding/deferrals
- 3 • other considerations that can be used to establish a relative ranking and to facilitate
- 4 investment trade-offs as needed
- 5

6 5.3.2 Project Categorization

7 Investments must also be categorized according to the type of benefit they are expected to
8 produce. Investments fall within the following three categories established by OPG:

- 9 • Value Enhancing – Discretionary investments that promise value creation or strategic
- 10 opportunities, such as added revenues, reduced costs, increased efficiencies, or new
- 11 business opportunities.
- 12 • Regulatory – Expenditures required to satisfy environmental, safety or other requirements
- 13 in law or regulation to allow the continued operation of existing facilities.
- 14 • Sustaining – Required to maintain existing infrastructure and facilities at their current
- 15 performance level.
- 16

17 5.3.3 Project Prioritization Process

18 As the business units compile their project lists, the total cost of all initially identified work
19 may exceed funding guidelines and/or the unit's capacity to undertake the work during the
20 planning period. Prioritization processes are then applied to assist with the selection of the
21 highest priority projects while remaining within the funding guidelines and resource
22 capabilities. Since business units manage different assets, prioritization approaches are also
23 unique to each business unit. The approach for regulated hydroelectric facilities is presented
24 in Ex. D1-T1-S1 and that for nuclear projects is presented in Ex. D2-T1-S1. However,
25 business unit prioritization approaches have common elements such as value, consideration
26 of risks, and regulatory compliance.

27

28 Business unit funding guidelines are established based on corporate strategies and priorities.
29 Corporate prioritization of specific projects is undertaken only if there are corporate
30 constraints with respect to spending or borrowing, or if the funding guidelines are exceeded
31 in the business unit plan submissions. The information submitted by the business units (e.g.,

1 planning BCSs, business unit prioritized project listings, business plan presentations)
2 generally provide sufficient information to allow trade-offs at the corporate level should the
3 need arise.
4

5 **6.0 BUSINESS CASE REQUIREMENTS FOR PROJECT RELEASE**

6 Approval is required for the release of funds to undertake project work. The documentation
7 for seeking approval consists of a BCS, which provides a detailed analysis of alternatives
8 and the rationale for the recommended alternative.
9

10 Requests for releases of funds are approved in accordance with the OPG Organizational
11 Authority Register ("OAR"), which is provided in Attachment 2. The OAR sets out delegated
12 authorities within OPG, and defines approval limits for decisions made on behalf of the
13 corporation. Approval requirements for capital and OM&A projects are based on the amount
14 of funds being released, with more restrictive requirements for projects of a strategic nature
15 or unplanned work (projects not identified in the project portfolio during business planning).
16 The OAR also specifies authorities for approval of variances for previously released projects,
17 and for superseding releases where projects must be reconsidered due to significant scope
18 and/or cost changes.
19

20 There is also a process for functional review of a BCS to ensure that it meets the criteria for
21 the quality and completeness of the information required to enable an informed decision on
22 approval of the project release. The functional review is required where there is a significant
23 impact on the function or its deliverables. For example:

- 24 • Projects with substantial IT requirements should be reviewed by the Chief Information
25 Officer's ("CIO") Department.
- 26 • Projects with significant legal or contractual issues should be reviewed by Law Division.
- 27 • Projects involving real estate transactions or leasing of office spaces should be reviewed
28 by Corporate Real Estate.
- 29 • Projects with significant labour relations or health and safety issues should be reviewed
30 by Human Resources.

1 Business Case Summaries are prepared using the format established in OPG's BCS
2 Guidelines to ensure a consistent approach to developing investment proposals. The BCS
3 Guidelines establish the discount rates for OPG's economic evaluations for regulated assets.
4 The discount rate is currently 7 per cent, which is based on the OEB's approved formula for
5 determining the cost of capital and the deemed capital structure approved by the OEB in EB-
6 2007-0905 as well as OPG's long term view of the financial markets.

7
8 OPG uses a number of measures to assess development initiatives. As an initial screening
9 tool, a Levelized Unit Energy Cost ("LUEC") is developed for the investment and compared
10 to the LUEC of other investment options. A LUEC expresses all the future costs of a
11 generation option on a per unit of energy basis and is typically expressed as ¢/kWh in
12 constant dollars for a given year. The use of LUECs allows for comparison across different
13 investment options.

14
15 To assess an investment's value in the context of the overall Ontario electricity system, its
16 cost is evaluated against the estimated value to the electricity system of the additional
17 capacity and energy expressed on \$/MWh basis - the system economic value ("SEV").
18 OPG's develops the SEV based on a number of inputs including forecast demand, fuel
19 prices, CO2 offset cost, cost of new generation (typically combined cycle and simple cycle
20 gas plants) and publicly available information on committed generation plans in Ontario (e.g.,
21 OPA contracts). OPG also considers relevant environmental legislation and policies (e.g., air
22 emission limits on SO2, NOx, particulates, mercury).

23
24 To test sensitivities, high and low values of the inputs are used to produce a range of
25 forecast SEV. OPG's SEV forecasts are benchmarked against those developed by external
26 agencies as part of the internal validation process.

27 28 **7.0 POST IMPLEMENTATION REVIEW PROCESS**

29 The post implementation review ("PIR") process is used by OPG on a corporate-wide basis
30 to assess achievements following completion of capital and OM&A projects. Specifically, a
31 PIR is an appraisal process designed to evaluate whether planned results of a given

1 investment have been met following project completion. The two main objectives of the PIR
2 process are to verify whether the benefits stated in the project business case were realized,
3 and to capture the lessons learned from each project so that they can be applied to improve
4 future projects and investment decisions.

5
6 Post implementation reviews follow a simplified or comprehensive format depending on the
7 size and scope of the investment involved.

8 9 **7.1 Simplified PIR**

10 Focuses on validating if the stated benefits/results are realized as presented in the business
11 case for the project. All projects greater than \$200k must undergo a simplified PIR as
12 specified in the PIR plan, ideally within six months of the project being completed. Exclusions
13 are those projects that have been earmarked by senior management to undergo a
14 comprehensive PIR because of high value (greater than \$25M) or due to other factors.

15 16 **7.2 Comprehensive PIR**

17 A comprehensive PIR is an independent and broad review of a completed project. It is an
18 intensive exercise requiring a multi-disciplinary team, ideally independent from the project
19 team, to review all phases of a project. It provides detailed feedback on how the project was
20 developed, planned, and executed to help gather lessons for future investments. It is only
21 performed on a small number of projects due to the high resource requirements.

Filed: 2010-05-26
EB-2010-0008
Exhibit A2
Tab 2
Schedule 1
Page 14 of 14

LIST OF ATTACHMENTS

1

2

3

Attachment 1: 2010 - 2014 Business Planning Instructions, June 3, 2009

4

5

Attachment 2: Organizational Authority Register

2010 – 2014 Business Planning Instructions

*Issued by:
Corporate Business &
Investment Planning
Corporate Finance*

June 3, 2009

ONTARIOPOWER
GENERATION

CONTACT INFORMATION

If you require further information on business planning assumptions, schedules, or requirements, please contact:

David Halperin – Director, Business & Financial Planning
Sandra Radcliffe – Manager, Financial Forecasts

592-6100
592-4062

Regarding OEB Regulatory processes and requirements:

Barb Reuber – Director, Ontario Regulatory Affairs

592-5419

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1.0 INTRODUCTION

This year's Business Planning process is occurring against a backdrop of unique financial circumstances. Ontario has been particularly hard hit by the global financial meltdown and the restructuring of the domestic automobile industry. At the same time, 2010-2014 Business Plan will span a critical period for OPG, during which we will see dramatic changes in our operations and assets, as we reshape the generation portfolio to meet future needs. Key elements of this transition include:

- [REDACTED]
- Extending the "Continued Operations" program at Pickering B, intended to confirm the feasibility and enhance confidence in being able to operate that plant beyond its current nominal service life.
- Establishing the plans and approval milestones for refurbishing Darlington
- Continuing to build the infrastructure required to support the new nuclear build project
- Ongoing pursuit of medium and large-scale hydro-electric developments
- [REDACTED]

The challenges associated with planning and executing these initiatives would be daunting at any time; the fact that this year's process is occurring during a period of unprecedented economic turmoil, compounds our task this year. The fact that many Ontario businesses are fighting for survival, and ratepayers are facing economic hardship, means that we can expect unprecedented pressure to aggressively manage our costs, while maintaining safe and prudent operations.

The objective of the 2010 -2014 planning process is to develop a 5-year consolidated business plan that:

- Establishes medium term (2010-2014) operational and financial targets, and resource requirements, consistent with OPG's strategic objectives.
- Establishes the budget and accountability base for the first year (2010).
- Documents OPG's medium-term financial and operational outlook to be shared with financial stakeholders (e.g., shareholder, banks, credit rating agencies, regulators) in order to maintain access to capital markets.

Once approved by the OPG Board of Directors, the 2010-2014 Business Plan will form the basis of our application to the Ontario Energy Board (OEB) for the determination of new rates for the output from OPG's regulated facilities for the January 1, 2011 to December 31, 2012 period.. Corporate Finance and Regulatory Affairs will continue to integrate business planning and regulatory information requirements.

Recognizing the scope and complexity of the challenges we face this year; a number of changes are being made to the business planning process. These improvements include:

- Earlier roll out of process instructions
- Two step process for top-down establishment of OM&A targets
- Improving the transparency of plans – eg through benchmarking and gap analyses
- Increased management oversight during the process
- Earlier approval of the corporate plan (to facilitate preparation of the OEB application)

The overall timing of key elements of the business planning process is as follows:

- Early May – Instructions issued, 2010 OM&A targets set
- June – status reports on BU business plan development; OM&A targets for 2011 and beyond set
- Early September – BU business plan submissions provided to Corporate Finance
- Late September -- Senior Management reviews of BU plans
- Mid October - Updated submissions to Finance
- November – OPG Board approves 2010-2014 plan

Post Approval Activities (OEB related)

[REDACTED]

A more detailed schedule is shown in section 2.5.

2.0 PLANNING CONTEXT

Contact: David Halperin

2.1 VISION, CORE BUSINESS AND STRATEGY

Over the last five years, OPG has established itself as a performance-driven company and has regained the confidence of its Shareholder. Today, OPG is seen as a responsible and credible generator, an important contributor to the economy of Ontario, and a positive force in the communities in which it operates. This perception is backed up by strong performance across a number of areas, including:

- consistently strong safety results;
- high levels of hydroelectric availability;
- [REDACTED]
- better environmental performance;
- continuing world class performance at Darlington and ongoing improvements at Pickering A&B; and
- higher levels of net income - although a number of challenges remain on the road to financial sustainability.

These accomplishments reflect a successful execution of the vision that has guided OPG over the last five years. Looking forward, OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner.

OPG's goal is to be a leader in clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future.

To achieve this goal, OPG is focused on three corporate strategies

- performance excellence;
- generation development; and
- developing and acquiring talent

Performance Excellence

Performance excellence is essential to OPG. Every business segment and corporate function exhibits our commitment to generation, safety, the environment, and fiscal performance. It is through our focus on performance excellence that OPG is able to efficiently and reliably provide electricity to the province and deliver value to its Shareholder.

Nuclear Generating Assets

Performance excellence for OPG nuclear means safe, efficient and cost effective operations, with prudent investments to improve reliability. Programs and initiatives have been implemented that will continue to:

- improve safety performance; increase equipment reliability to reduce generation interruptions;
- plan and execute outages more efficiently to realize optimal generation potential;
- mitigate technological risks through essential and effective inspection and testing programs; and
- address workforce planning issues.

These initiatives, combined with ongoing cost control efforts, are expected to result in lower production unit energy costs.

Hydroelectric Generating Assets

Performance excellence at OPG's hydroelectric generating assets is defined as improving production in a cost-effective and efficient manner. Programs and initiatives are underway to replace aging equipment such as turbines, generators and transformers.

- OPG plans to increase the capacity of existing stations by 87 MW over the next five years by replacing existing turbine runners with more efficient equipment. The replacement of control equipment will also improve efficiency and accommodate market dispatch requirements. Aging civil structures will be repaired, rehabilitated or replaced.

- The hydroelectric business segment is strengthening its relationships with First Nations and local communities.
- OPG is meeting the demographic challenges faced by its hydroelectric business unit by training staff to perform new roles and by hiring new staff, including graduate trainees.

Fossil-Fuelled Generating Assets



Safety

OPG's safety culture is rooted in the belief that zero injuries can be a reality. OPG is committed to achieving performance excellence in employee, contractor and public safety through continuous improvement in its safety management systems and risk control programs and a corporate commitment to achieving the goal of zero injuries in the workplace. OPG strives for continuous improvement through visible leadership and commitment to safety, a strong safety culture where employees take personal responsibility for safety, and maintaining effective safety management systems. To improve OPG's AIR going forward and to strive for zero injuries, OPG is committed to reducing the number of workplace injuries through targeted risk reduction programs.

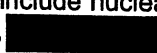
Environmental Performance


OPG's Environmental Policy states that "OPG will strive to continually improve its environmental performance", and commits OPG to meet all legal requirements and voluntary commitments, with the objective of exceeding those standards where appropriate and feasible. Other goals include integrating environmental factors into business planning and decision-making, and maintaining environmental management systems which improve transparency in monitoring and reporting of OPG's environmental performance. OPG monitors emissions into the air and water and regularly reports the results to regulators that include the Ministry of the Environment, Environment Canada and the CNSC, as well as the public. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

Financial Sustainability

OPG's financial priority, operating as a commercial enterprise, is to achieve a sustainable level of financial performance. Inherent in this priority are the objectives of: earning an appropriate return on OPG's regulated assets; receiving market prices for production from unregulated assets; identifying and exploring efficiency improvement opportunities; and ensuring that sufficient funds are available to achieve OPG's strategic objectives of performance excellence and generation development. OPG has employed a number of strategies to achieve a level of sustainable financial performance.

Generation Development

With the aging of OPG's generating fleet, it is essential that focus be placed on generation development. OPG pursues capacity expansion or life extension opportunities where it makes good business sense. Increasing the production potential of existing infrastructure reduces the environmental impact of meeting Ontario's electricity demands. Pursuing opportunities to leverage existing sites and assets will enable OPG to realize the additional benefits from these assets. OPG's ongoing and planned major projects include nuclear plant refurbishment, new nuclear generation, new hydroelectric generation and plant upgrades, 



Pickering Refurbishment Project

Work is proceeding on the feasibility study to refurbish the Pickering B nuclear generating station. This includes an assessment of the station's condition, an EA, and an Integrated Safety Review ("ISR"), which is designed to ensure safe and secure operations of the station for the proposed future period. OPG has submitted all required Safety Factor Reports to the CNSC. The CNSC continues to review these reports and OPG is providing additional information as required. OPG is preparing the final ISR for submission in late 2009.

Darlington Refurbishment Project

Planning work for the assessment of the feasibility of refurbishing the Darlington nuclear generating station began in early 2008. Planning for the plant condition assessment commenced in the second quarter of 2008 and will continue throughout 2009. In addition, a number of technical studies are underway to evaluate the condition of critical plant components in order to finalize the project's scope. In late 2008, OPG commenced the ISR process. The ISR Basis Document, which identifies the ISR scope and methodology, was submitted to the CNSC in November 2008. The ISR is expected to be completed for submission to the CNSC by late 2011.

New Nuclear Generating Units

In March 2008, the Minister of Energy announced a two-phase competitive Request For Proposal ("RFP") process to select a nuclear reactor vendor for two units of baseload generation to provide 2,000 to 3,500 MW of generating capacity to the Ontario electricity grid.

- Phase one of the RFP process assessed the ability of the invited vendors to support a successful construction licence application in compliance with Canadian regulatory requirements and to successfully deliver the overall project, as well as to ascertain their financial strength and legal position. Phase one was completed in June 2008 with Areva NP, Atomic Energy of Canada Limited, and Westinghouse Electric Company advancing to phase two.
- Phase two of the competitive RFP process was launched in June 2008 to select a nuclear reactor vendor who will design, develop, construct, and provide licensing and commissioning support, and fuel supply, to a stand-alone two-unit nuclear power plant at the Darlington site. It is expected that the preferred vendor will be announced in the late spring of 2009.

Niagara Tunnel

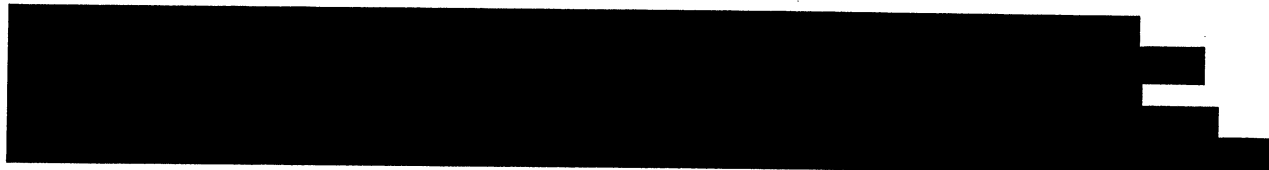

The progress of the tunnel boring machine continues to be slower than what was expected under the original contractor schedule, primarily due to excess overbreak of the Queenston shale in the tunnel crown. A dispute review hearing process was initiated earlier in 2008 to assess, among other things, whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract. The Dispute Review Board issued its non-binding recommendations in late August 2008. OPG and the contractor are using the Dispute Review Board recommendations as a basis for negotiating revisions to the design-build contract. These revisions are expected to have a significant impact on the project completion schedule and the cost estimate. The negotiations are underway and are targeted for completion in the first quarter of 2009.

Upper Mattagami and Hound Chute



Lower Mattagami

OPG is proceeding with a development plan to increase the generating capacity of four hydroelectric

**Biomass Generation Opportunities****2.2 OPERATING ASSUMPTIONS****2.2.1 Fossil Long-term Asset Strategy****2.2.2 Interim Nuclear Operating and Investment Decisions**

Nuclear's 2010 plan assumes implementation of Pickering B Continued Operations program over the years 2009- 2013. The program is intended to ensure the plants' ability to operate through 2018. Continued operations will extend the "window" within which decisions regarding Pickering Refurbishment can be made.

Planning for the Darlington refurbishment continues to assume a 2016 date for the initial refurbishment outage.

2.3 SUPPORT FUNCTION REVIEW

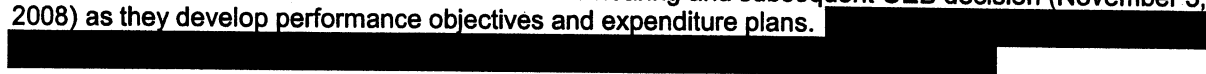
Contact: David Halperin

The dispositioning process for SFR opportunities was completed during 2008, and there are no specific business plan-related reporting or analytical requirements. Business plans will reflect benefits from opportunities implemented during the last two planning cycles.

2.4 REGULATORY REQUIREMENTS

Contact: Barb Reuber

The 2010-2014 Business Plan will form the basis of OPG's next rate submission to the OEB, which is planned for March 2010 and will cover rate years 2011-2012. In preparing their plans and submissions, business units should review issues raised in last summer's hearing and subsequent OEB decision (November 3, 2008) as they develop performance objectives and expenditure plans.



If you require additional information regarding requirements for preparation of the OEB application, please call Barb Reuber at 416-592-5419.

2.5 SCHEDULE

As noted earlier, the business planning process features a number of changes this year in response to the planning challenges we are facing. Key changes and new elements include the following;

- Approval of the business plan is targeted for November 2009, one month earlier than in previous years, to facilitate preparation of the corresponding OEB rate submission for filing on March 15, 2010. This entails compressing activities at the back end of the schedule and will have little impact on BU schedules.
- Business plan instructions are being issued earlier than in previous years and expenditure guidelines for OM&A are being established.
- There will be a mid-process status report due to the Chief Financial Officer and Vice-President, Business and Investment Planning, due late in June, to communicate the status of each Business Units' business plan development.
- The Executive Committee will review and approve 2011 OM&A guidelines in July after consideration of planning progress and issues

Date	Business Planning Activities
March 31	<ul style="list-style-type: none"> • Executive Committee approves 2010-2014 Business Planning Process proposal and confirms 2010 OM&A targets
May (early)	<ul style="list-style-type: none"> • Business Plan instructions issued
May (mid)	<ul style="list-style-type: none"> • Preliminary Energy Production Plan released • Board approves Fossil Asset Strategy (coal unit shutdown schedules)
June	<ul style="list-style-type: none"> • BU status updates provided to Senior Management (details to be provided) • Updated Energy Production Plan reflecting May Board decision regarding Fossil Asset Strategy)
July	<ul style="list-style-type: none"> • Executive Committee approves 2011 OM&A targets
June – August	<ul style="list-style-type: none"> • Continuing site and BU plan development
September	<ul style="list-style-type: none"> • Initial submissions to Finance Sept 8 • CEO/COO/CFO reviews Sept 21 – Oct 9 • Potential Status report to OPG Board (Sept. 30)
October	<ul style="list-style-type: none"> • Revised revenue & energy plan Oct 15 • Revised submissions to Finance Oct. 15 • EC review Oct. 27
November	<ul style="list-style-type: none"> • EC review Nov. 3 (if necessary) • Board mail out Nov 11 • Board approval Nov 19

Following the OPG Board's approval of the plan, completion of submission templates and other evidence for the 2011-2012 rate submission will commence, [REDACTED]

3.0 SPECIFIC BUSINESS PLANNING & BUDGETING INSTRUCTIONS

3.1 INFORMATION SUBMISSIONS

Contact: Sandra Radcliffe

Business Plan Submissions are required from each business unit, and consist of two primary elements:

- A quantitative resource and financial submission package, submitted through BPS, and accompanied by supporting analysis material; and
- Business Plan power point presentations, to be made to senior management starting in the second half of September, and which must be provided to Corporate Business and Investment Planning in advance of the review with senior management.

The initial resource and financial submission packages are due to Financial Planning on September 8 and consist of the following elements:

- Resource and financial information, including OM&A, non-electricity revenues and costs, capital, minor fixed assets, staff, and provision expenditures, which are to be submitted with work program and resource type/cost element detail through the Business Planning System (BPS). Monthly detail is required for 2010 and 2011. Summarized quarterly detail is sufficient for the remaining years, and may be submitted by email by October 15; this information must reconcile to the annual information contained in BPS.
- Interest capitalization, removal costs and in-service addition forecasts are required, consistent with capital project plan details submitted in BPS and Project listings, (see Section 3.6). Quarterly details for the all years must be submitted on September 8
- BU's are reminded of the importance of appropriate forecasts for working capital items, including fuel inventory and material and supplies inventory.
- Cost allocation – Business units must allocate all their costs to the station level, within regulated and non-regulated OPG. See section 3.4.2 following.
- An accompanying analysis package which addresses significant changes in resources and performance from both plan-over-plan and year-over-year perspectives. Changes of \$5 million or 10% in business plan resources (OM&A, capital, fuel, and non-electricity revenues) should be addressed, as well factors influencing year over year performance. As in the past, this analysis should be provided to Financial Planning through an email, Excel (preferred) or Power Point file.

Similar to previous years, the Business Plan Presentations should identify objectives, performance targets, resources, key initiatives, and risks and mitigation strategies. Comparisons to the current business plan, with analyses of changes in resources and targets, are required. The presentations must also specifically address two new information requirements, intended to promote greater transparency in our operational plans:

Operational Benchmarking

- Business units are to indicate how benchmarks/benchmarking have been utilized in assessing operational performance, and their consideration in establishing performance objectives and/or cost targets. Where relevant or comparable benchmarks may not exist, businesses should indicate what other externally-based references are utilized to assess performance and identify potential improvements.

Marginal Resource Analysis

- Budget guidelines incorporate the targeted \$85 million reduction for 2010. Business plans also need to provide a marginal resource analysis that indicates the impact of having to reduce planned in 2010 and 2011 by a further 5% below guidelines. The analysis for each year should be done separately. The analysis can be provided on a layered basis, eg "the first 1% or \$X million would impact programs abc....., the next 2% would require the deferral of xyz, etc". Implications of program reductions or project deferrals are to be identified.

Memorandum of Agreement

BETWEEN

**Her Majesty the Crown In Right of Ontario (the
"Shareholder")**

And

Ontario Power Generation ("OPG")

Purpose

This document serves as the basis of agreement between Ontario Power Generation Inc. ("OPG") and its sole Shareholder, Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the "Shareholder") on mandate, governance, performance, and communications. This agreement is intended to promote a positive and co-operative working relationship between OPG and the Shareholder.

OPG will operate as a commercial enterprise with an independent Board of Directors, which will at all times exercise its fiduciary responsibility and a duty of care to act in the best interests of OPG.

A. Mandate

1. OPG's core mandate is electricity generation. It will operate its existing nuclear, hydroelectric, and fossil generating assets as efficiently and cost-effectively as possible, within the legislative and regulatory framework of the Province of Ontario and the Government of Canada, in particular, the Canadian Nuclear Safety Commission. OPG will operate these assets in a manner that mitigates the Province's financial and operational risk.
2. OPG's key nuclear objective will be the reduction of the risk exposure to the Province arising from its investment in nuclear generating stations in general and, in particular, the refurbishment of older units. OPG will continue to operate with a high degree of vigilance with respect to nuclear safety.
3. OPG will seek continuous improvement in its nuclear generation business and internal services. OPG will benchmark its performance in these areas against CANDU nuclear plants worldwide as well as against the top quartile of private and publicly- owned nuclear electricity generators in North America. OPG's top operational priority will be to improve the operation of its existing nuclear fleet.
4. With respect to investment in new generation capacity, OPG's priority will be hydro- electric generation capacity. OPG will seek to expand, develop and/or improve its hydro- electric generation capacity. This will include expansion and redevelopment on its existing sites as well as the pursuit of new projects where feasible. These investments will be taken by OPG through partnerships or on its own, as appropriate.

5. OPG will not pursue investment in non-hydro-electric renewable generation projects unless specifically directed to do so by the Shareholder.
6. OPG will continue to operate its fossil fleet, including coal plants, according to normal commercial principles taking into account the Government's coal replacement policy and recognizing the role that fossil plants play in the Ontario electricity market, until government regulation and/or unanimous shareholder declarations require the closure of coal stations.
7. OPG will operate in Ontario in accordance with the highest corporate standards, including but not limited to the areas of corporate governance, social responsibility and corporate citizenship.
8. OPG will operate in Ontario in accordance with the highest corporate standards for environmental stewardship taking into account the Government's coal replacement policy.

B Governance Framework

The governance relationship between OPG and the Shareholder is anchored on the following:

1. OPG will maintain a high level of accountability and transparency:
 - OPG is an *Ontario Business Corporations Act* ("OBCA") company and is subject to all of the governance requirements associated with the OBCA.
 - OPG is also subject to the *Freedom of Information and Protection of Privacy Act*, the *Public Sector Salary Disclosure Act* and the *Auditor General Act*.
 - OPG's regulated assets will be subject to public review and assessment by the Ontario Energy Board.
 - OPG will annually appear before a committee of the Legislature which will review OPG's financial and operational performance.
2. The Shareholder may at times direct OPG to undertake special initiatives. Such directives will be communicated as written declarations by way of a Unanimous Shareholder Agreement or Declaration in accordance with Section 108 of the OBCA, and be made public within a reasonable timeframe.

C. Generation Performance and Investment Plans

1. OPG will annually establish 3 –5 year performance targets based on operating and financial results as well as major project execution. Key measures are to be agreed upon with the Shareholder and the Minister of

Finance. These performance targets will be benchmarked against the performance of the top quartile of electricity generating companies in North America.

2. Benchmarking will need to take account of key specific operational and technology factors including the operation of CANDU reactors worldwide, the role that OPG's coal plants play in the Ontario electricity market with respect to load following, and the Government of Ontario's coal replacement policy.
3. OPG will annually prepare a 3 – 5 year investment plan for new projects.
4. Once approved by OPG's Board of Directors, OPG's annual performance targets and investment plan will be submitted to the Shareholder and the Minister of Finance for concurrence.

D. Financial Framework

1. As an OBCA corporation with a commercial mandate, OPG will operate on a financially sustainable basis and maintain the value of its assets for its shareholder, the Province of Ontario.
2. As a transition to a sustainable financial model, any significant new generation project approved by the OPG Board of Directors and agreed to by the Shareholder may receive financial support from the Province of Ontario, if and as appropriate.

E. Communication and Reporting

1. OPG and the Shareholder will ensure timely reports and information on major developments and issues that may materially impact the business of OPG or the interests of the Shareholder. Such reporting from OPG should be on an immediate or, at minimum, an expedited basis where an urgent material human safety or system reliability matter arises.
2. OPG will ensure the Minister of Finance receives timely reports and information on multi-year and annual plans and major developments that may have a material impact on the financial performance of OPG or the Shareholder.
3. The OPG Board of Directors and the Minister of Energy will meet on a quarterly basis to enhance mutual understanding of interrelated strategic matters.

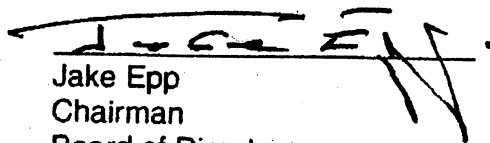
4. OPG's Chair, President and Chief Executive Officer and the Minister of Energy will meet on a regular basis, approximately nine times per year.
5. OPG's Chair, President and Chief Executive Officer and the Minister of Finance will meet on an as needed basis.
6. OPG's senior management and senior officials of the Ministry of Energy and the Ministry of Finance will meet on a regular and as needed basis to discuss ongoing issues and clarify expectations or to address emergent issues.
7. OPG will provide officials in the Ministry of Energy and the Ministry of Finance with multi-year and annual business planning information, quarterly and monthly financial reports and briefings on OPG's operational and financial performance against plan.
8. In all other respects, OPG will communicate with government ministries and agencies in a manner typical for an Ontario corporation of its size and scope.

F. Review of this Agreement


This agreement will be reviewed and updated as required.

Dated: the 17th day of August, 2005

On Behalf of OPG:


Jake Epp
Chairman
Board of Directors

On Behalf of the Shareholder:


Her Majesty the Queen in Right of
the Province of Ontario as
represented by the Minister of Energy,
Dwight Duncan

TAB 5

CONFIDENTIAL

(Not included in this Motion Record)

Presentations made to OPG
Directors on or about November 19,
2009, marked as Exhibit F2, Tab 1,
Schedule 1, Attachment 1

March 29, 2010

OPG STARTS ENERGY BOARD RATE APPLICATION PROCESS *If granted, rate increase would be the second since 2005*

[Toronto]: Ontario Power Generation (OPG) will be seeking its second rate increase since 2005 when it submits an application to the Ontario Energy Board (OEB) in April. Any new rates stemming from this application would not go into effect until January 2011 and would remain in effect for two years.

Tom Mitchell, OPG's President and CEO, noted that last year, in recognition of the economic downturn, the company did not seek a rate increase and looked for internal cost saving measures instead.

"We deferred our rate application once but we must go to the OEB this year to make a request for an increase in our regulated rates. We continue to look for internal savings on top of the \$85 million we've saved to date," said Mitchell. "We look forward to validating our rate proposal before the regulator."

The proposed increase, if accepted by the OEB, would result in modest increases on the average residential bill of about \$2.75 per month starting in 2011.

The final decision will be made by the OEB after it examines OPG's case for a rate increase. The OEB operates as an adjudicative tribunal and carries out a public hearing to review the rate application.

KEY FACTS

- OPG is the only generating company in the province whose rates are set through a public process, and its net income remains in the Province of Ontario.
- The application is for the rate OPG receives for the output from its Darlington and Pickering stations and from its hydroelectric plants at Niagara and Cornwall. These plants produce about 70 per cent of the electricity produced by OPG.
- In 2009, OPG received 5.5 cents a kWh for its nuclear output, and 3.7 cents a kWh for its regulated hydroelectric output.

- OPG's prices are below those received by most other generating companies. Thus OPG's prices help to hold down the overall costs for electricity that are paid by consumers.
- The current commodity price for residential and other small volume consumers under the Regulated Price Plan of the OEB is 5.8 cents per kWh. This applies to the first 1,000 kilowatt hours used in a month. After the first 1,000 kilowatt hours, the price rises to 6.7 cents per kWh.
- OPG began stakeholder information sessions today. Public hearings are expected to take place later this year.

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For more information contact
Ontario Power Generation
Media Relations
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THE GLOBE AND MAIL

May 6, 2010

Ontario utilities told not to bother with requests for rate increases

By Karen Howlett
Globe and Mail Update

Government steps in to prevent backlash over soaring hydro costs

The Ontario government has taken the highly unusual step of ordering the province's Crown-owned electricity utilities to cancel their requests for hydro rate increases, amid worries of a consumer backlash over soaring power costs.

The government's 11th-hour intervention in a rate-setting process that is designed to take the politics out of electricity pricing follows revelations that residential customers in Ontario are already facing increases of \$300 more a year on average to keep the lights on by the end of 2011.

Three days before Hydro One was set to go to the province's energy regulator in mid-March, government officials told the company not to file its application, according to industry sources. Months of preparation that had gone into applying for the new rate suddenly ground to a halt, including the printing of hundreds of thousands of pages of documents.

The magnitude of the increase Hydro One was seeking - 22 per cent over two years, according to industry sources - left many of its largest customers in shock. Ontario Power Generation's (OPG) intention to ask for a 9.6 per cent rate increase effective next January - equivalent to about \$2.75 a month for the average household - paled in comparison. But unlike Hydro One, OPG publicly announced its plans last March 29, and it was the negative reaction that prompted government officials to step in, the sources said.

Energy Minister Brad Duguid said government officials are scrutinizing any request for a price increase to determine whether it is, in fact, necessary.

"We're looking very closely at all increases in the system to ensure that we're standing up for consumers, to ensure that they're getting value for their money," he said in an interview on Thursday. "We are scrutinizing any impacts on rates very closely."

Opposition members say the McGuinty government is to blame for mismanaging the electricity system.

"This is more about politics than anything else," said Progressive Conservative energy critic John Yakabuski. "They don't want to deal with the negative push back from the consumer."

Energy consultants say several factors account for the \$300 annual increase, or 25 per cent, consumers are facing next year, including green-energy investors the government is luring with the promise of generous long-term contracts. The figure does not include the increases sought by Ontario Hydro and OPG.

Industry sources said they were surprised the utilities had withdrawn their requests, because they typically seek the green light from government before proceeding to the Ontario Energy Board. This time around, both utilities had already spent two days meeting with large customers last March, explaining the need for rate increases, before suspending their applications.

Hydro One spokeswoman Daniele Gauvin said the utility, which owns the province's electricity transmission system, is now reviewing its application to look for areas where it can reduce costs by deferring work.

"In the current economic times, we are mindful of the impact of rate increases on our customers," Ms. Gauvin said. She would not confirm how much of an increase Hydro One was seeking.

OPG planned to file its application on April 15. But that same day, Andrew Barrett, OPG's vice-president of regulatory affairs, sent an e-mail to large customers, saying the date had been pushed back to late May.

"During this time, OPG will review our application to identify ways to further lessen the impact of our request on ratepayers," he said.

OPG spokesman Ted Gruetzner denied that it was Mr. Duguid who directed the utility to withdraw its application.

OPG generates about two-thirds of the province's electricity output and is the only producer whose rates are set through public hearings. The utility has not had a rate increase since 2008. It receives 5.5 cents a kilowatt hour for power from its nuclear reactors and 3.7 cents from its hydroelectric plants - well below what other producers receive.

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May 26, 2010

OPG RESUMES ENERGY BOARD RATE APPLICATION PROCESS *Lower rate request reduces impact on ratepayers*

[Toronto]: Ontario Power Generation (OPG) is proceeding with a lower rate application to the Ontario Energy Board (OEB).

The proposal, if accepted by the OEB, would result in an increase to the average residential bill of about \$1.86 per month. OPG delayed filing its application last month so that it could find a way to lower its requested rate by more than 30 per cent.

"We wanted to do more to reduce the impact of our request on ratepayers," said Tom Mitchell, OPG's President and CEO. "Last year, we found \$90 million of internal savings and deferred our application. This year, we sharpened our pencils to shave our current rate application while still allowing OPG to produce safe, clean, reliable, low-cost electricity for Ontario."

Any new rates stemming from this application would not go into effect until March 2011 and would remain in effect until the end of 2012.

The final decision will be made by the OEB following public hearings that allow stakeholders to examine OPG's case for a rate increase. The OEB operates as an independent tribunal and will carry out a public hearing to review the rate application.

KEY FACTS

Last year, OPG generated 92.5 billion kilowatt hours of electricity to power two thirds of Ontario's homes and businesses.

The rate increase would pay for work that includes but is not limited to:

- Maintaining and operating its nuclear generation units – including Darlington, which are consistently among the best operating CANDU units in the world -- and its heritage hydroelectric plants, which are among the best operating plants in North America. OPG's nuclear and hydro plants are also the backbone of Ontario's emission-free electricity system.

- Undertaking detailed planning for Darlington refurbishment that would allow it to operate for an additional 30 years. Darlington supplies about 20 per cent of Ontario's electricity.
- Pursuing continued operations at Pickering B to about 2020 -- which will generate approximately 65 billion kilowatt hours of electricity over the four-year period of continued operation.
- Rehabilitating and getting more electricity from heritage hydroelectric assets. Hydro is the lowest-cost and one of the cleanest forms of electricity available to Ontarians.
- Continuing contributions to a fund to pay for the storage of nuclear waste so as not to burden future generations.
- Continuing the licensing and environmental assessment work for new nuclear to be ready for the future.

During the 2011-2012 period, OPG's forecast production from these valuable baseload assets is 137.3 billion kilowatt hours.

OPG is the only generating company in the province whose rates are set through a public process, and its net income remains in the Province of Ontario.

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For more information contact
Ontario Power Generation
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Back to OPG trims proposed hydro rate increase by 32%

OPG trims proposed hydro rate increase by 32%

May 26, 2010

John Spears

Ontario Power Generation has reduced a proposed rate increase by 32 per cent after coming under pressure from Energy Minister Brad Duguid – but opposition critics say consumers are still paying “exorbitant prices.”

OPG is now proposing new rates that would increase a typical householder's bill by about \$1.86 a month, down from its original proposal of \$2.75 a month.

The new rates, which must be approved by the Ontario Energy Board, would come into effect next March.

Duguid had asked OPG and Hydro One, both owned by the province, to keep their increases “to a minimum.” Hydro One scaled back its proposed increase last week by more than 25 per cent.

OPG produces two-thirds of Ontario's electricity. The price of about 70 per cent of that output, which comes from its biggest hydro-electric stations and nuclear plants, is regulated by the energy board.

OPG is now proposing a 6.2-per-cent price increase for its regulated output, instead of the 9.6 per cent increase it had first requested, said spokesman Ted Gruetzner.

The company says it needs money to maintain and operate its nuclear units; to plan for refurbishing the Darlington nuclear plant and plan for new nuclear units; and to cover the cost of nuclear waste storage.

If the proposal is approved, OPG will get 3.7 cents a kilowatt hour for the output of its big hydro stations, and 5.3 cents a kilowatt hour for its nuclear output.

To shave money from its original proposal, Gruetzner said OPG will shut down four coal-burning units ahead of schedule.

Two units at its Lambton power station, and two at Nanticoke, will close in October. The province has committed to closing all units by 2014.

In addition, OPG will not jack up rates to recover what were in effect tax overpayments made in previous years.

OPG's proposed increase is one of many putting pressure on power prices.

The province has approved a host of new bids from companies producing electricity from renewable sources such as wind and sunshine. Those generators are being paid prices ranging from 13.5 cents a kilowatt hour for wind, to 80 cents a kilowatt hour for solar.

The HST will boost rates 8 per cent, and time-of-use rates, which charge users higher prices during periods of peak usage, will also mean higher bills for many consumers.

Opposition MPPs decried the proposed increase.

“This is no break to the consumer,” said John Yakabuski of the Ontario Conservatives, pointing to array of factors pushing up the price. “Consumers are still paying exorbitant prices.”

“All you've got to do is look at what the forecasters say will happen based on the commitments this government is making, based on high-cost power.”

New Democratic Party critic Peter Tabuns said OPG's plans for spending much of the increase on nuclear plants are misguided.

“OPG should be supporting a transition to an efficiency and conservation-led utility, not one that's focused on nuclear power,” he said.

**REDACTED
PUBLIC**



ONTARIO ENERGY BOARD

FILE NO.: EB-2010-0008

REDACTED - PUBLIC

VOLUME: Technical Conference

DATE: August 26, 2010

1 so --

2 MR. SHEPHERD: So I am asking you to provide those
3 documents. Is this a refusal?

4 MR. KEIZER: This is a refusal.

5 MR. SHEPHERD: Thank you.

6 MR. KEIZER: Then moving on to CME No. 18.

7 MR. BARRETT: Here, we were asked to clarify the
8 period for which OPG forecasts the global adjustment
9 mechanism. I can advise that we have simulations of the
10 market that go out to 2030 that include an amount for
11 global adjustment.

12 MR. THOMPSON: So you take it out 20 years?

13 MR. BARRETT: Yes, that's correct.

14 MR. THOMPSON: But in evidence, you have confined it
15 to just the two years that are the subject matter of the
16 test period?

17 MR. BARRETT: The relevant period, yes.

18 MR. SHEPHERD: Am I right in assuming that if I asked
19 for that document, that is also a refusal?

20 MR. KEIZER: Yes.

21 MR. SHEPHERD: Thank you.

22 MR. KEIZER: Let's move on to CME No. 19, which I
23 think on the record already, based upon the IRs that have
24 been responded to, that certain information has been
25 declined to be produced on the basis of relevance and
26 litigation privilege. So I am not quite sure if there is
27 really -- what the nature of the question here is on this
28 aspect.

1 MR. THOMPSON: Well, let me help you.

2 What you will need to turn up is your -- the non-
3 confidential version of your response to CC --
4 Interrogatory No. 1.

5 I don't want to get fined here, but am I correct the
6 non-confidential and the confidential are the same? The
7 thing has been blacked out in both sets?

8 MR. KEIZER: I am not sure. This was because it was
9 on the basis of generally being available, and that we have
10 to provide a letter to the Board, I think, by August 30th,
11 unredacted, for them to assess on the same basis that we
12 have done in other occasions relating to the non-regulated
13 portion of OPG.

14 MR. THOMPSON: So if you have that item in front of
15 you, this is the first bullet point in my question, Issue
16 1.3.

17 The question is to clarify what you are referring to
18 or what is meant by the quote, "the building of public
19 concern of electricity prices" that is referenced in
20 attachment 2 on -- I think it is the second page, in the
21 middle.

22 What is being referred to when the phrase is -- by the
23 phrase the "building public concern over electricity
24 prices"?

25 MR. KEIZER: Sorry, I don't think the witnesses have
26 it in front of them.

27 MR. THOMPSON: Oh, I'm sorry.

28 MR. BARRETT: We have the letter. Can you just repeat

1 the question, please?

2 MR. THOMPSON: Yes. If you go to the second page, in
3 the middle of the page there is a paragraph that begins:

4 "As you know, in response to the building public
5 concern over electricity prices..."

6 My question is what is that phrase referring to?

7 MR. BARRETT: This refers to the stories in the media
8 at that time.

9 MR. THOMPSON: Yes. And does it encompass OPG's
10 requested rate increase, concerns over that?

11 MR. BARRETT: I don't recall the media stories
12 precisely, but these stories would have been before we
13 filed our application, presumably.

14 MR. THOMPSON: Right. Well, they're cited in some of
15 my interrogatories, but let me just ask.

16 Does the building concern -- public concern over
17 electricity prices referenced here refer to concern over
18 Hydro One Transmission's pending rate increase?

19 MR. BARRETT: Again, I think this section of the
20 letter references a general concern about rising prices.
21 It doesn't reference any individual component.

22 MR. THOMPSON: All right. Well, does it reference the
23 concerns being expressed in the media at that time?

24 MR. BARRETT: That's correct.

25 MR. THOMPSON: Okay. So I can find out all of those
26 concerns.

27 The letter goes on, and it says:

28 "Because of this concern, OPG determined in mid-

1 April that it would defer the filing of its
2 application to allow us to consider alternatives
3 that would further reduce the impact on
4 consumers."

5 My next question of clarification is would you please
6 advise us of each of the alternatives OPG considered that
7 would further reduce the impact on consumers?

8 MR. BARRETT: The alternatives we considered was
9 extending the term of variance account recovery.

10 MR. THOMPSON: Yes, that's one alternative. What are
11 the others?

12 MR. BARRETT: Those are all of the alternatives that
13 we examined. We looked at a number of different recovery
14 periods.

15 MR. THOMPSON: All right. And then my next bullet
16 point discusses your refusal to produce in confidence the
17 materials that we requested, and CME -- CCC also requested
18 them.

19 My question is can you tell us whether the
20 alternatives that you identified were presented to the
21 board of directors?

22 MR. KEIZER: I guess you are asking: Did the
23 alternatives come forward for approval? Is that what you
24 are asking?

25 MR. THOMPSON: Well, the alternatives are identified
26 in this letter, and the letter talks at the bottom about
27 something being presented to the board of directors on May
28 20th.

1 My question was to clarify whether the alternatives
2 that you are referring to in this letter were presented to
3 the board of directors at the meeting that is described in
4 this letter.

5 MR. BARRETT: I don't have the board documents with
6 me, so I can't confirm one way or the other.

7 MR. THOMPSON: Could you undertake to inform us
8 whether the alternatives were presented to the board of
9 directors?

10 MR. KEIZER: I guess subject to the objection we
11 already have on the record, we will -- we can have a look,
12 but subject to that objection.

13 MR. THOMPSON: All right.

14 MS. BINETTE: Should I give that an undertaking
15 number? Yes? Okay. So that is JT1.10.

16 **UNDERTAKING NO. JT1.10: TO ADVISE WHETHER FURTHER**
17 **ALTERNATIVES WERE PRESENTED TO THE OPG BOARD OF**
18 **DIRECTORS, OTHER THAN EXTENDING THE TERM OF VARIANCE**
19 **ACCOUNT RECOVERY**

20 MR. THOMPSON: Then you go on in CCC No. 4 on the
21 second page, where you say:

22 "The application has been prepared on a cost of
23 service basis and must be considered by the OEB
24 as such."

25 I think you explained what you meant by that in an
26 earlier response, but do you have anything to add to that,
27 Mr. Barrett?

28 Do you see where I am referencing?

1 MR. BARRETT: I don't think we have that interrogatory
2 with us.

3 MR. THOMPSON: Sorry. It's CCC No. 1, Exhibit L-4, L,
4 tab 4.

5 MR. BARRETT: L-4-1?

6 MR. THOMPSON: L-4-1, yes. On the second page, the
7 second sentence, that is what the question is referencing.

8 You gave a dissertation a few moments ago about
9 deciding upon rates, and then mitigating. We had a
10 discussion on that subject. That, I took it, was your
11 explanation of what you meant by "prepared on a cost of
12 service basis and must be considered as such", but if I am
13 not -- please expand on it if there is something more.

14 MR. BARRETT: There is nothing more.

15 MR. THOMPSON: Thank you.

16 Now, the next bullet point in the question is
17 referring to the bottom part of this interrogatory
18 response, where you talk about a change in implementation
19 date from January 1 to March 1.

20 I wasn't clear whether the March 1 implementation date
21 was part of the initial filing, or whether that was
22 something that changed.

23 MR. BARRETT: It was -- just to clarify, there was
24 only one filing.

25 MR. THOMPSON: Sorry, the initial stakeholder
26 presentation.

27 MR. BARRETT: In the initial stakeholder
28 presentations, we were proposing a January 1 implementation

payment amounts.

Please clarify whether or not OPG does prepare, for its internal use, five year forecasts of regulated hydroelectric and nuclear generation payment amounts.

Please clarify the period for which OPG actually forecasts global adjustment changes.

We will be seeking clarification of the following items:

- "the building of public concern over electricity prices" referenced in Attachment 2 to Non-Confidential Ex.L-4-001.
- Each of the "alternatives" OPG considered that would further reduce the impact on customers referenced in Attachment 2 to Non-Confidential Ex.L-4-001.
- OPG's refusal to produce in confidence the materials requested in CME #10 (a).
- The assertion in Non-Confidential Ex.L-4-001 that "the application has been prepared on a cost of service basis and must be considered by the OEB as such."
- Whether the implementation date of March 1, 2011, was a part of OPG's initial plan presented to Stakeholders in late March and early April of 2010.
- Statements reported in the Toronto Star on May 26, 2010, to have been made by Mr. Gruetzner pertaining to taxes.
- "matters that relate to the determination of just and reasonable payment amounts" referenced in OPG's response to CME #10 (d).

- The estimate we are requesting OPG to provide in CME #11 (b) is a presentation of the revenue requirement for 2011 and 2012 in the format of the document attached to OPG's response to CME #29, but with return on equity at 5% rather than 10%. We are requesting that OPG provide such a presentation so that it can be compared to the revenue requirement amounts for 2011 and 2012 that OPG asks the Board to approve.

- Please clarify the "Government's announcement" referenced in OPG's response to CME #11 (a) and produce a copy thereof.
- Please clarify each of the factors considered by OPG in taking the "decision to reduce the consumer impact of the application" referenced in its response to CME #11 (c).

We will be seeking clarification of the following:

- The steps one takes to derive the "return on equity" from the audited statements and an explanation of how the "comparison of revenue requirements" effectively results

Issue 1.3	CME #4

Issue 1.3	CME #9
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Issue 1.3	CME #10 Ex.L-4-001 referenced therein
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Issue 1.3	CME #11 and 29
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Issue 1.3	CME #13
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UNDERTAKING JT1.10

Undertaking

To advise whether further alternatives were presented to the OPG Board of Directors, other than extending the term of variance account recovery.

Response

No alternatives other than that in the application were presented to the OPG Board of Directors.



ONTARIO ENERGY BOARD

FILE NO.: EB-2010-0002

VOLUME: 1

DATE: September 20, 2010

BEFORE:	Paul Sommerville	Presiding Member
	Ken Quesnelle	Member
	Paula Conboy	Member

1 decision on the motion, and then we will proceed from
2 there. Thank you.

3 --- Recess taken at 11:14 a.m.

4 --- On resuming at 12:01 p.m.

5 **DECISION:**

6 MR. SOMMERVILLE: Thank you. Please be seated. The
7 Board has arrived at a decision with respect to the motion.

8 The motion is granted. In the Board's view, there is
9 probative value in this documentation of the evolution of
10 the company's thought with respect to its business plan,
11 which ultimately culminated in the application that we're
12 dealing with in this case.

13 The Board notes that these are highly formalized
14 documents, seeking the approval of the board, signed by the
15 president and the chief financial officer of the
16 corporation. The fact that the approval sought was not
17 limited, nor were the documents limited, to the
18 transmission side of the business is not fatal to their
19 value insofar as they demonstrate and seek the approval of
20 the board with respect to the business plan which
21 culminated in the application.

22 The Board does consider that it has the discretion to
23 deny admissibility to materials where the probative value
24 is obviously outweighed by the prejudicial effect of the
25 material. The Board does not consider this to be such a
26 case.

27 In the Board's view, the prejudicial effect,
28 specifically the creation of an inhibition of discussion

1 around the Hydro One board table, is not convincing in this
2 case. The highly detailed and formal nature of these
3 documents, as I have noted, signed by the president and the
4 chief financial officer, suggest that they are obviously
5 not records of discourse, conversation, debate, nor could
6 they consider it to be genuinely formative with respect to
7 the points of view expressed in the documents.

8 So on that basis, the Board grants the motion.

9 **PROCEDURAL MATTERS:**

10 Now, Mr. Shepherd, you have suggested that you want to
11 make submissions with respect to the confidentiality to be
12 afforded the documents and that, I think, is available to
13 you.

14 I suppose the correct order, actually, is that Mr.
15 Rogers must first indicate why he thinks the documents
16 should be confidential and you get to suggest why they are
17 not.

18 Is there anyone else who takes the view that the
19 documents ought not to be received on a confidential basis?
20 Mr. Shepherd, now you are alone.

21 MR. SHEPHERD: Mr. Chairman, before my friend starts,
22 when I made that comment, I had not seen the documents.
23 And I still haven't seen one of them, but I have now seen
24 two of them and I have identified parts of them that I
25 would agree are confidential.

26 And, therefore, it may be more appropriate, and what I
27 would propose to the Board, is that the Board find them to
28 be confidential again and that we deal with the extent to

TAB 12

CONFIDENTIAL

(Not included in this Motion Record)

Documents produced, in confidence, by Hydro One in proceedings before the Board, including the following Exhibits from the following proceedings:

- (a) Exhibit EB-2008-0187, 2009 Distribution IRM Rates Application, decided May 13, 2009, Confidential Exhibits K1.6, K1.7 and K1.8
- (b) EB-2009-0272, 2009 and 2010 Transmission Revenue Requirement and Rates, decided May 28, 2009, Confidential Exhibits K3.4 and K3.5
- (c) EB-2009-0096, 2010-2011 Distribution Rates, decided April 9, 2010, Confidential Exhibits H1, Tab 9, Schedule 4; H1, Tab 9, Schedule 44; and H1, Tab 13, Schedule 1
- (d) EB-2010-0002, 2011-2012 Transmission Rates, Exhibits KX1.2, KX1.3, KX1.4 and KX2.6

NON-CONFIDENTIAL

(see following pages)

- (e) The presentation made by Hydro One management to its Board of Directors on May 13, 2010, filed in EB-2010-0002 as Exhibit I, Tab 3, Schedule 1

1 **Canadian Manufactures & Exporters (CME) INTERROGATORY #1 List 1**

2
3 **Interrogatory**

4
5 Issue 1.2

6
7 References: Exhibit A, Tab 12, Schedule 1, page 2

8
9 As in prior cases, please produce, in confidence, the complete packages of materials
10 presented to Hydro One's Board of Directors for approval on each of the following key
11 dates in the 2010 to 2014 planning cycle referred to at Exhibit A, Tab 12, Schedule 1,
12 page 2:

- 13
14 • June 2009;
15 • November 2009;
16 • February 2010.

17
18
19 **Response**

20
21 Hydro One believes the material relevant to the Board is that presented to the Hydro One
22 Board of Directors on May 13, 2010, as provided in Attachment 1. This letter, which the
23 Company is filing un-redacted, highlights the changes made to the application between
24 the intended March 2010 filing date and the May 19, 2010 actual filing date.

25
26 In support of Hydro One's decision not to provide all the Board Memos requested in
27 confidence, the Company relies on the Ontario Energy Board's Decision in Proceeding
28 EB-2008-0187 dated May 13, 2009, where the Board stated:

29
30 "While the genesis of an application is of general interest to the Board, it is not
31 determinative of the substantive aspects of the application. Once filed in
32 accordance with the provisions of the legislation, applications are reviewed on
33 their merit. The particulars surrounding the levels of approvals before a distributor
34 makes an application, is a matter that is internal to the company itself."

35
36 The Company believes the material requested by CME falls into the category of
37 information which the Board felt was internal to the company itself and not determinative
38 of the substantive aspects of the application.

Hydro One Inc.
Submission to the Board of Directors

Filed: August 16, 2010
EB-2010-0002
Exhibit I-3-1
Attachment 1
Page 1 of 4



Date: May 13, 2010

Subject: Hydro One Revised Application for the 2011 – 2012 Transmission Rates

Submitted by:

Peter Gregg
Senior Vice President
Corporate and Regulatory Affairs

Approved for Submission to the Board by:

Laura Formosa
President and Chief Executive Officer

RECOMMENDATION

THAT the Board of Directors of Hydro One Inc. approve Hydro One's Revised 2011 – 2012 Transmission Revenue Requirement and Rate Application for submission to the Ontario Energy Board on or about May 14, 2010.

KEY HIGHLIGHTS

- After careful review of the transmission costs and given the customer impact of rate increases, Hydro One has revised its 2011 – 2012 Application. The Transmission Business Revenue Requirement for 2011 has been reduced by \$57 million and is now \$1,445 million and 2012 has been reduced by \$65 million and is now \$1,547 million.
- The resulting increase in transmission rates is now 15.7% versus 21.5% in 2011 and 9.8% in 2012 versus 9.1%. This represents an estimated increase on total customer bills of 1.2% in 2011 and 0.7% in 2012. The average residential customer's bill will increase by about \$1.40 per month in 2011 and by approximately \$0.95 per month in 2012.
- The major factors contributing to the rate increase continue to be the addition of in-service transmission investments in the asset base for expansion of our infrastructure and to sustain our current system.
- The filing includes Hydro One's Green Energy transmission plan (GEP) in response to the Green Energy and Green Economy Act, 2009. Accelerated cost recovery (Construction Work in Progress in rate base) will still be sought for the Bruce to Milton project.

EXECUTIVE SUMMARY

1. Strategic Significance

Hydro One plans to file an application with the Ontario Energy Board on or about May 14, 2010, for new transmission rates effective January 1, 2011 and January 1, 2012, consistent with the Company's strategy of building and maintaining a reliable, cost effective transmission system and supporting the facilitation of the Government's green energy initiatives. The Regulatory and Environment Committee has guided the development of the 2011 – 2012 Transmission Rate Application since August 2009.

2. Purpose

To obtain Hydro One Board approval to file an Application for the Transmission Business Revenue Requirement for 2011 and 2012 at \$1,445 million and \$1,547 million respectively. The Revenue Requirement is composed of annual OM&A as well as the carrying costs for assets in-service including the depreciation of the assets, CWIP in rate base for the Bruce to Milton project, taxes, and cost of capital (interest payments and return on equity). The requested level of funding balances system requirements and concern for customer rate increases given the current economic climate and recent concerns communicated by the government. Table 1 provides a summary of the revenue requirement which will be requested compared to the original March 31 submission values.

Table 1
Revenue Requirement (M\$)

	OEB Approved 2010	2011 Original	2011 Proposed	2012 Original	2012 Proposed
OM&A	426	456	436	470	450
Carrying Costs of Assets					
Depreciation	281	314	303	346	335
Cost of Capital	550	732	706	797	762
Total Revenue Requirement	1,257	1,502	1,445	1,613	1,547
Capital Expenditures	1,058	1,263	1,152	1,264	1,008
Rate Base	7,636	8,783	8,379	9,637	9,135

3. Regulatory

In 2011, the 15.7% increase is mainly attributed to the growth in asset base (and the related carrying costs), the inclusion of CWIP in rate base for the Bruce to Milton project and OM&A increases to support the ongoing business and improve system reliability. In 2012, the 9.8% increase is mainly attributed to an even further growth in asset base.

The main changes that have been reflected in the revised Application are a reduction or deferral of \$19 million of OM&A expenditures in 2011 and \$20 million in 2012 including reductions in transmission sustainment activities, real estate, corporate services and a freeze on compensation increases for management staff. These reductions account for about 1.6% of the decrease in 2011.

Similarly, a review of Hydro One's capital expenditure projects and programs and anticipated in-service dates for other projects has resulted in a significant reduction in rate base for the two test years. Rate base for 2011 is now forecast at \$8,378 million down \$404 million and down \$502 million to \$9,134 million for 2012. These reductions account for approximately 3% of the decrease in 2011.

The load forecast has also been revised upward to reflect a revised OPA forecast for conservation and demand management targeted for 2011 while still achieving the OPA's original IPSP forecast target by the end of 2012. This adjustment accounts for 1.2% of the decrease in 2011.

In total the revenue requirement increase for 2011 has dropped by 5.8% to 15.7% as a result of the 3 factors identified above. For 2012 the revenue requirement increase has grown by 0.7% to 9.8% as a result of the anticipated increase in conservation and demand management in 2012.

4. Risk Analysis

Hydro One's revised application reflects a reduction in rate base from levels initially proposed for both 2011 and 2012; however, the nature of the reductions or deferrals does not materially increase the risk to the Company. These reductions largely reflect Green Energy Project deferrals pending confirmation by the OPA that there is sufficient demand to proceed with the projects or deferrals as a result of delays in customer requests. Reductions in Transportation and Work Equipment and delays in bringing on additional resources are a direct result of these project delays. Nevertheless, Hydro One is still requesting a \$700 million increase in rate base for 2011 and an additional \$800 million increase for 2012.

Anticipated intervenor concerns regarding the appropriateness of this level of work will be addressed with extensive evidence on capital projects and programs. The evidence will reinforce the fact that the increases are largely the result of previous Decisions which come into service in the test year (e.g. Bruce to Milton project) and government direction on the need to expand the transmission system to accommodate renewable generation. Hydro One's request to include CWIP in rate base for the Bruce to Milton project will also be challenged.

Approximately \$12 million of the OM&A reductions relate to project and program deferrals. A risk-based assessment of the Transmission system at this reduced OM&A sustainment funding levels was carried out. This assessment, took into account the following;

- asset condition
- safety
- performance
- system function
- customer impact, and
- statutory requirements.

It was concluded that while individual assets may face increased risks in the short term, the overall system impact is minimal with safety and reliability remaining at current levels.