EB-2007-0905

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.

INTERROGATORIES TO ONTARIO POWER GENERATION

FROM THE CONSUMERS COUNCIL OF CANADA

GENERAL QUESTIONS:

1. Please describe, in detail, the process OPG undertook in developing its latest update to the evidence.

2. Re: A1/T4/S1/p.6

Please provide a list of all 5 directives OPG has received from its shareholder. Does OPG anticipate further directives during the test year period? If, please explain, if possible how these may impact the revenue requirement.

3. Re: A1/T1/S1

OPG is proposing an increase in its revenue requirement that results in a 14% increase in electricity rates for Ontario's electricity consumers. Please describe how OPG intends to communicate the nature of the increase to Ontario consumers.

4. Re: A/T3/S1/pp. 8-10

OPG has set out several "drivers" of the revenue deficiency. Please provide a value for each of the drivers listed. In effect, of the $1029.2 million deficiency how much is attributable to each of the drivers?

5. Re: A1/T4/S3/pp. 7-28

The MOU with OPG's shareholder states that OPG will seek continuous improvement in its nuclear generation business and internal services. It further states that OPG will benchmark its performance in these areas against nuclear plants worldwide and against top generators in North America. Please indicate specifically how OPG is meeting this objective beyond the information provided in section 9.0. Please provide copies of all benchmarking studies undertaken over the last five years.

6. Re: A2/T1/S1/Appendix A

OPG's earnings in 2007 were $528 million compared to a net income of $490 million for the year ended December 31, 2006. The evidence states that earnings were favourably affected by an increase in earnings from the Nuclear Funds, an increase n non-electricity generation revenue, higher fossil generation, a decrease in income tax expense largely due to an additional contribution to the Nuclear Funds that is deductible for tax purposes, and lower depreciation expense primarily due to the extension in 2006 of the service lives of the coal-fired generating stations for accounting purposes. Please indicate how each of these items contributed to the variance in terms of dollar amounts.

7. Re: A2/T2/S1/p. 1

The evidence states that the business planning process relies, in part of foreign exchange rate forecasts. To what extent is the 2008 and 2009 revenue requirement affected by fluctuations in foreign exchange rates? How does OPG mitigate risks associated with foreign exchange rates?

8. Re: A2/T2/S1/p.1

The evidence sets out the business planning and budgeting process. Please indicate how that process has changed since the OEB has been given responsibility for regulating the payment amounts for the prescribed assets.

9. Re: A2/T2/S1/p. 3

The evidence indicates that with respect to the business planning process "respective draft business unit plans are finalized and presented to the CEO and CFO in late September or early October". Please provide copies of all presentations made to the CEO and CFO during the latest business planning cycle (the one that applies to the test year period). Please specify where the executives have provided "redirection" on the plans. Please specifically identify where changes were made at this stage of the process, and why.

RATEBASE:

10. Re: B4/T1/S1/p. 1

OPG performed a lead lag study in 2006. Please recalculate Chart 9 and Chart 10 using the previous methodology.

CAPITAL STRUCTURE AND COST OF CAPITAL:

11. Re: C1/T1/S1

Please calculate the impact on the revenue requirement assuming the following scenarios:

A: A capital structure of 35% debt and 65% equity
B: A capital structure of 40% debt and 60% equity
C: A capital structure of 45% debt and 55% equity
D: A capital structure of 50% debt and 50% equity

12. Re: C1/T1/S1

Please calculate the impact on the revenue requirement assuming the following scenarios

A: ROE of 9.5%
B: ROE of 9%
C: ROE of 8.5%
D: ROE of 8%
E: ROE of 7.5%

CAPITAL PROJECTS:

13. Re: D1/T1/S1/p. 2

Please provide the impact on the 2008 revenue requirement assuming a $50 million reduction in the 2008 hydroelectric capital budget of $208.8 million.

14. Re: D1/T1/S1/p. 2

Please provide the impact on the 2009 revenue requirement assuming a $50 million reduction in the 2009 hydroelectric capital budget of $395.6 million. Please provide the impact on the 2009 revenue requirement of a $100 million reduction in the 2009 hydroelectric capital budget.

15. Re: D1/T1/S2/p. 1

OPG employs a tiered reporting structure for capital projects. Of the total capital budget for each of the test year periods please indicate how much of the budget falls into the following categories: large projects ($10 million or more); mid-range projects ($5 - $10 million); and other projects (up to $5 million).

16. Re: D2/T1/S1/Table 1

Please provide the impact on the 2008 revenue requirement assuming a $50 million reduction in the $189 million Capital budget. Please provide the impact on the 2009 revenue requirement assuming a $50 million reduction in the $330 million Capital budget.

17. Re: D3/T1/S2/Table 2

For each of the projects listed (Capital Projects in Corporate Groups Impacting Prescribed Facility Rate Base) in the $5 million to $10 million range please provide a detailed business case.

18. Re: D3/T1/S2/Table 3

Please provide a list of all projects exceeding $500,000 included in the $58.2 million budget for Capital Projects in Corporate Groups impacting Prescribed Facility Rate Base. For all projects exceeding $1 million please provide a business case.

PRODUCTION FORECASTS:

19. Re: E1/T1/S1

With respect to OPG's forecasts for hydroelectric production please explain how variances from the forecast affect net income. In effect, what proportion of the overall production forecast is OPG at risk for and what proportion is dealt with through deferral account treatment?

20. Re: E1/T1/S2/p. 3

In 2007 the total regulated hydroelectric budget was 4% above the 2007 budget. Assuming that was a budget approved by the OEB for the purposes of setting the prescribed payments please explain how that variance would have affected net income for 2007.

21. Re: E1/T1/S2/pp. 1-6

The evidence indicates that the total regulated hydroelectric production during 2005, 2006 and 2007 was above budget. If the variances are entirely related to river flows are these variances all captured through a deferral account? If not, please explain.

22. Re: E1/T1/S2/pp. 1-6

For the last three years OPG's total regulated hydroelectric production has consistently exceeded forecast levels. Please provide the forecasts and actual production related to these assets for the last 10 years. Has OPG made any material changes to it forecast methodology given the trend for actual production to exceed the forecast?

23. Re: E2/T1

With respect to OPG's forecasts for nuclear production please explain how the variances from forecast affect net income. For OPG what represents the greatest risk regarding any forecast variances?

OPERATING COSTS:

24. Re: F1/T1/S1/T1

Please recast Table 1 (Operating Costs Summary – Regulated Hydroelectric) to include budget amounts for each year 2005-2007.

25. F1/T2/S2

Please provide a detailed budget for the EVP – Hydroelectric Office. Please provide a detailed budget for the Engineering Services – Regulated Hydroelectric Department.

26. F1/T2/S1/Table 1

Please recast Table 1 (Base OM&A – Hydroelectric) to include budget amounts for 2005-2007.

27. Re: F2/T1/S1/Table 1

Please recast Table 1 (Operating Costs Summary –Nuclear) to include budget amounts for each year 2005-2007.

28. Re: F2/T2/S1/p. 54

OPG is forecasting to spend $17.3 million in 2008 and $17.6 million in 2009 on Nuclear Research and Development. How is the annual budget developed? What is the specific "regulatory obligation" regarding R&D? How much discretion does OPG have in deciding how much to spend on R&D?

29. Re: F2/T2/S1/Table 1

Please recast Table 1 (Base OM&A – Nuclear) to include budget amounts for 2005-2007.

30. Re: F2/T2/S1/p.21

Please provide a detailed 2008 and 2009 budget for "Other Purchased Services" which form part of the Nuclear OM&A Base. Please provide actual and budget amounts in each category for the years 2005-2007.

31. Re: F2/T4/S1/Table 1

Please recast Table 1 (Outage OM&A – Nuclear) to include the forecast outage costs for 2005-2007. In addition, please provide budget and actual Outage Costs (OM&A) for the last 10 years. Please explain how variances in outage costs affect net income.

32. Re: F2/T5/S1

Please explain how variances in nuclear fuel costs affect OPG's net income.

33. Re: F2/T5/S1/Table 1

Please provide a table setting out nuclear fuel costs, budget and actual, for the last 10 years.

CORPORATE COSTS:

34. Re: F3/T1/S1/p. 11

Please provide a detailed budget for each component of the Corporate Affairs budget – Regulatory Affairs and Corporate Strategy, and Public Affairs. Please provide the budgets for each year 2005-2009. Please describe the nature of each cost component.

35. Re: F3/T1/S1/p. 11

Please provide a detailed budget for the CIO. Please provide the budgets for each year 2005-2009. Please describe the nature of each cost component.

36. Re: F3/T1/S1/p.12

Please provide a detailed budget for the Corporate Centre. Please provide budgets for each year 2005-2009. Please describe the nature of each cost component.

37. Re: F3/T1/S1/Table 1

Please provide a detailed budget for Energy Markets. Please provide budgets for each year 2005-2009. Please describe the nature of each cost component.

38. Re: F3/T1/S1/Table 1

Please provide a detailed budget for Human Resources. Please provide budgets for each year 2005-2009. Please describe the nature of each cost component.

39. Re: F3/T1/S1/Table 1

Please provide a detailed budget for Real Estate. Please provide budgets for each year 2005-2009. Please describe the nature of each cost component.

COMPENSATION AND BENEFITS:

40. Re: F3/T4/S1/pp. 2-3

The evidence indicates that approximately 90% of OPG's regulated staff are unionized and subject to collective bargaining. Please provide a schedule which sets out for each staffing group (PWU, Society and Management) the total compensation and benefit cost for each year 2005-2009. If management represents 10% of the staff, what proportion of the overall compensation and benefits cost does this group represent?

41. Re: F3/T4/S1/pp. 2-3

Of the total number of OPG employees, how many have an annual base salary that exceeds $100,000?

42. Re: F3/T4/S1/p. 8

If the data is available, please update Chart 3 (Average Employee Costs for Regulated Business – Year End 2006) to reflect year end 2007.

43. Re: F3/T4/S1/p. 29

The evidence states that with respect to escalation rates for the management group, 3% for each year 2007-2009 has been used. For PWU the escalation rate is 3-4% per year. For the Society the escalation rate is 4%. For each year 1995 to 2005 please provide the annual escalation rates for each of the three groups.

44. Re: F3/T4/S1/p. 30, 38

Please provide copies of the Mercer Benchmarking Study and the Towers Perrin Study.

45. Re: F3/T4/S1/p. 37

Chart 12 sets out 2006 annual salary increases. Please provide the same data for the years 1995-2005.

46. Re: F3/T4/S1/p. 39

The evidence states that when comparing OPG PWU positions to those in Bruce Power the Bruce Power positions are paid significantly more than similar positions within OPG. Please provide a detailed explanation as to why OPG is of the view that this is the case.

OTHER REVENUES:

47. Re: G1/T1/S1

Please explain how under OPG's current proposals it is exposed to any forecasting risk with respect to Regulated Hydroelectric – Other Revenues.

48. Re: G1/T1/S1/p. 1

Please confirm that all revenues associated with ancillary services are subject to variance account treatment during the test year period.

49. Re: G1/T1/S1/pp. 5-10

OPG is proposing a mechanism to share revenue related to segregated mode of operation transactions on a 50:50 basis with ratepayers. How was the 50:50 ratio determined? Why should ratepayers not be entitled to all of these revenues?

50. Re: G1/T1/S1/pp. 10-11

OPG is proposing a mechanism to share revenue related to water transactions on a 50:50 basis with ratepayers. How was the 50:50 ratio determined? Why should ratepayers not be entitled to all of these revenues?

51. Re:G1/T1/S1/p.15

Please provide evidence to support the claim that CMSC payments directly offset lost production/revenue and increased costs associated with constrained operations. In effect, please demonstrate that there is actually an offset between CMSC payments and the related lost revenue and increased costs.

DEFERRAL AND VARIANCE ACCOUNTS:

52. Re: J1/T1/S1

Of the existing and proposed deferral and variance accounts please indicate which ones are prescribed by regulations.

53. Re: J1/T1/S1/p. 1

OPG has recorded amounts in a variance account related to its proposed sharing of a portion of the profits from power sales to Quebec and water transactions with the NY Power Authority. When did OPG first begin recording the amounts in this account? When did OPG obtain approval for the establishment of the account?

54. Re: J1/T1/S1

Please provide a complete list that summarizes what components of OPG’s revenue requirement subject to variance and deferral account treatment and what components are not.