

**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 OPG for  
an Order or Orders approving or fixing just and  
reasonable rates and other charges for the distribution  
of electricity commencing May 1, 2008.**

**INTERROGATORIES  
OF THE  
SCHOOL ENERGY COALITION**

**CORPORATE:**

Finance

1. Ref: Exhibit A2-2-1, pg. 2: Business Planning Overview
  - (a) The evidence states that the business planning process involves communication of the business planning framework “through business planning instructions typically issued by Corporate Finance toward the end of the second quarter”. Please provide a copy of the business planning instructions issued by Corporate Finance for each of 2005, 2006, and 2007.
2. Ref: Exhibit A2-2-1, pg. 6: Classification of Expenditures
  - (a) Please describe the process through which OPG establishes the materiality thresholds for Generating Asset Classes, Administration/Service Buildings, Telecom Equipment, Mixed Fixed Assets, and Software.
3. Ref: Exhibit A2-2-1, pg. 8: Asset Management
  - (a) The evidence states that OPG is undertaking a number of new supply development initiatives. Please list these new supply development initiatives and provide a description for each, or provide references in the evidence if they have already .
4. Ref: Exhibit A2-2-1, pg. 11: Business Case Requirements for Project Release
  - (a) The evidence mentions a “process for functional review of the BCS”. Please provide a full description of what this functional review process entails.
  - (b) The evidence states that depending on the dollar amount and strategic significance of an investment, review and sign-off at appropriate management and executive levels are required prior to approvals. What are the dollar amounts and “strategic significance” of an investment that determine which

level of management/executive reviews and sign-offs off on the investment? Furthermore, what are the corresponding levels of management/executive conducting the review and sign-off based on these dollar amounts and strategic significance criteria?

- (c) The evidence states that due diligence is exercised by the delegated authorities in conducting their review of the proposed investment. Please explain in further detail how the delegated authorities exercise such due diligence.
- (d) The evidence lists certain considerations that the review and assessment of a proposal “generally include”.
- (i) Are there certain considerations that the assessor is required make in each review or is it at the assessor’s discretion?
- (ii) If it is at the assessor’s discretion, how does the assessor determine which specific considerations to make in a review/assessment?
- (iii) If certain considerations are required, please provide a list of these considerations.

5. Ref: Exhibit A2-2-1, pg.12: Post Implementation Review Process

- (a) The evidence states that the post implementation review process consists of an “independent multidisciplinary team” that reviews all phases of a project. Please provide a breakdown of individuals comprising this multidisciplinary team and their departments and business units.
- (b) The evidence states that “a rigorous screening process is applied to candidate projects.”
- (i) Please explain the criteria for determining if a project is a candidate for the rigorous screening process.
- (ii) Please describe what the rigorous screening process entails.

6. Ref: Exhibit A2-1-1, Appendix A: Financial Statements

- (a) Page 13. Please confirm that none of OPG’s hedging activities relate to fuel costs or energy production relating to the prescribed assets. If there are any such hedging activities, please describe them in details, together with the dollar implications and where they appear in the application.
- (b) Page 13. Please provide a summary of all exchange rate and interest rate derivatives activities that relate to the costs, financing or revenues associated with the prescribed assets, and summarize the impacts, including the dollar implications, and where they appear in the application.
- (c) Page 14. Please confirm that OPG does not earn any emission reduction credits from production by any of the prescribed assets, and confirm that none of the emissions from fossil fuel production are offset due to production from any prescribed assets, directly or indirectly.
- (d) Page 17. Please confirm that the adoption of the new hedge accounting standard has no impact on the revenue requirement requested in this application. If there is such an impact, please describe the nature of the impact, the dollar amounts, and where they appear in the application.
- (e) Page 18. Please provide a copy of all submissions by or on behalf of OPG (or any coalitions or umbrella groups to which OPG belongs) to the CICA or its

committees in 2005 through 2008 relating to proposed changes in accounting for regulatory operations.

- (f) Page 18/19. Please provide a calculation of the impact, if any, on the revenue requirement for the prescribed assets of the sale of accounts receivable described on these pages. If there is an impact, please describe OPG's plans or internal proposals, if any, for further securitization transactions affecting the revenue requirement for the prescribed assets, and the dollar impact expected for each.
- (g) Page 22. Please provide a detailed breakdown of all amounts included in the Pickering A Return to Service Deferral Account, including dates charged to the account, nature of the costs (e.g. type of OM&A spending, if part of OM&A), and any allocation decisions affecting the amounts charged.
- (h) Page 26. Please provide a copy of the agreement, MOU, regulation, order in council, or other document that establishes the method by which the interest rates are set for amounts payable by OPG to OEFC. Assuming the method entails a market survey, please provide a copy of the most recent market survey by OEFC establishing the interest rate for an OPG indebtedness.
- (i) Page 35. Please describe the impact, if any, of the potential tax reassessment on the revenue requirement for the prescribed assets.
- (j) Page 38. Please provide a copy of the January 1, 2008 actuarial valuation of the pension plans, together with all documents containing the assumptions provided by OPG on which the valuation was based.
- (k) Page 43. Please confirm that no amounts are included in the revenue requirement with respect to claims or potential claims by First Nations, whether as settlement amounts or internal or external costs to handle such claims. If such amounts are included, please provide a summary and advise where they are reflected in this application.
- (l) Page 45. Please describe the method by which time spent by senior executives and administrative staff relating to projects such as the Portlands Energy Centre are excluded from the revenue requirement for the prescribed assets.
- (m) Page 50/51. Please provide a revised version of the tables on these two pages, disaggregating the nuclear column into Pickering, Darlington and Bruce.
- (n) Page 50. Please provide a detailed description of how fuel expense is allocated between regulated and unregulated hydroelectric, including a chart showing the calculating of the fuel expense for each regulated and unregulated hydroelectric station and the production from that station, in each of 2006 and 2007, as well as forecast for 2008 and 2009.
- (o) Page 12 of MD&A. Please provide all reports in OPG's possession dealing with the "demographic and development issues" affecting OPG, the possible solutions, and the proposed and implemented plans to deal with them.

#### Allocation of Corporate Costs

7. Ref: Exhibit F3-1-1, pg. 2: Rationale for Corporate Structure

- (a) The evidence states that OPG has chosen to provide certain services centrally to ensure efficient and effective use of common shared services and systems. Please describe the process undertaken by OPG to decide which services to provide centrally and provide a copy of any business case(s) prepared to make these decisions. If there are no business cases, please explain the rationale behind this decision.
- 8. Ref: Exhibit F3-1-1, pg. 2: Corporate Initiatives
  - (a) Please provide a copy of the 2002 corporate structure review to improve the cost competitiveness of OPG's business, referred to in the evidence.
  - (b) Please provide a copy of the restructuring plan to reduce staff, referred to in the evidence.
- 9. Ref: Exhibit F3-1-1, pg. 3: Corporate Initiatives
  - (a) The evidence states that OPG's annual business planning process has included a rigorous review of all business units' OM&A costs during the last five years since 2002. Please provide a copy of this review for each of these five years.
  - (b) Please provide a copy of the results of the first phase of the 2007 support function review.
- 10. Ref: Exhibit F3-1-1, pg. 5: Corporate Costs – Total OM&A
  - (a) The evidence states that finance costs increased due to additional costs related to the establishment of a dedicated controllership group. Please explain the rationale behind establishing the controllership and provide a copy of the business case for this decision.
  - (b) The evidence states that human resources costs increased slightly due to the implementation of leadership development initiatives. Please describe what these initiatives entail and provide the rationale behind their implementation. If there was a business case, please provide a copy of it.
  - (c) Likewise, please describe what the additional health and safety initiatives entail and provide the rationale behind their implementation.
- 11. Ref: Exhibit F3-1-1, pg. 6: Corporate Costs – Total OM&A
  - (a) The evidence says that higher CIO costs are partly due to the relocation of multiple data centres. Please explain the rationale behind the relocation of these data centres and provide the business case for this decision.
- 12. Ref: Exhibit F3-1-1, pg. 18: Cost Allocation Methodology Review
  - (a) The evidence states that one of R.J. Rudden's findings identified in its report was that "supporting analyses" were prepared by many central support and administrative costs groups and departments, including detailed analyses of activities, identification of specific resources, interviews to determine time estimates and reviews of invoices to determine historical usage.
  - (i) Please provide a copy of these supporting analyses.
  - (ii) The evidence says that "many" (as opposed to all) central support and administrative costs groups and departments prepared these supporting

analyses. Please identify which groups did not provide such supporting analyses and explain why they did not.

13. Ref: Exhibit F3-1-1, pg. 20: OPG's Response to R.J. Rudden Report  
Recommendations

- (a) The evidence states that OPG has not developed templates to document time estimates, as recommended by R.J. Rudden, but may consider this in the future. Please explain why OPG has not implemented this recommendation as of yet.

14. Ref: Exhibit F3-1-1, pg. 22: Methods of Allocation

- (a) The evidence states that OPG department managers and business units were consulted and "supporting analyses" were prepared to support the specific identification/direct assignment and in selecting cost drivers. Please provide a copy of these supporting analyses.

15. Ref: Exhibit F3-1-1, pg. 27: Service Components

- (a) The evidence states that OPG is committed to purchase a "specified amount" of Project Services each contract year and historically has either met or exceeded this minimum amount, and plans to continue to exceed the minimum requirements.
  - (i) Please provide the specified amount.
  - (ii) Explain why OGP plans to exceed the minimum requirements in future.

Other Operating Cost Items

16. Ref: Exhibit F3-2-1, pg. 1: Depreciation Expense

- (a) The evidence states that service lives are established by the technical and engineering personnel of the business unit that manage the fixed assets. Please explain the process through which these personnel determine the service life of an asset.

17. Ref: Exhibit F3-2-1, pg.12: Regulatory Income Taxes

- (a) The evidence states that in 2006 and 2008, OPG received preliminary communications from the Tax Auditors with respect to their initial findings for their audit of the 1999 tax year. Please provide a summary of the Tax Auditors initial findings.
- (b) The evidence states that the potential impact of the 1999 audit could be to materially increase income tax for the 2005-2009 period and subsequent years, and therefore reduce tax losses. Please comment on how the OPG is addressing this risk and what it plans to do if such an increase in income tax occurs.

Asset Service Fee

18. Ref: Exhibit F3-3-1, pg.2: Service Fee Methodology

- (a) Chart 1, “Asset Service Fee Amounts – 2008 and 2009” lists IT Assets at \$22.3M in 2008 and \$17.4M in 2009. Please explain why IT Assets are so much higher in 2008.
- 19. Ref: Exhibit F3-3-1, pg. 7: Service Fee Methodology
  - (a) Chart 4, “Components of Asset Service Fee for IT Assets – 2008 and 2009” lists the depreciation expense for nuclear at \$15.9M in 2008 and \$11.2M in 2009. Please explain why the nuclear depreciation expense is so much higher in 2008.
- 20. Ref: Exhibit F3-3-1, table 2: Asset Service Fees – Nuclear
  - (a) Please provide an explanation as to why the nuclear asset fees increase from \$14.7M in 2005 to \$30.8M in 2006.
- 21. Ref: Exhibit F3-3-2, pg. 2: Asset Fees – Period-over-period Changes
  - (a) The evidence states that the increase in the actual service fee charged in 2006 for both nuclear and hydroelectric is due to the refinement of the calculation of the fee that took place in conjunction with the review of the asset service fee methodology by R.J. Rudden.
    - (i) Is an explanation for the refinement of the calculation of the fee included in the R.J. Rudden report that is provided in the evidence? If so, please provide the page number in the report where it can be found.
    - (ii) If an explanation is not included in the R.J. Rudden report, please explain the rationale behind the refinement of the calculation of the fee and explain how the calculation is made.

#### Compensation, Wages, Benefits

- 22. Ref: Exhibit F3-4-1, pg. 4: Current Demographics and Human Resources Environment
  - (a) Chart 2, “2007-2011 % of Staff to be Replaced” provides a list of percentages of staff that will need to be replaced due to retirements and terminations. Please explain how OPG came up with these percentages.
- 23. Ref: Exhibit F3-4-1, pg. 5: Current Demographics and Human Resources Environment
  - (a) The evidence states that by the year 2020, OPG will experience a shortfall of approximately 8,200 employees due to retirements and turnover. Please explain how OPG arrived at this number.
- 24. Ref: Exhibit F3-4-1, pg. 9: Power Workers Union
  - (a) The evidence states that the overall target for productivity gains and cost savings from skill broadening was \$290M from 2002-2005, and that the targets for 2002 and 2003 were achieved. Please advise what the targets for 2004 and 2005 were and whether or not they were met.

- (b) The evidence states that skill broadening became part of the standard operating practice of the company in 2003. What was the rationale upon which this decision was made?
- 25. Ref: Exhibit F3-4-1, pg. 12: Management Group
  - (a) Please provide a copy of the most recent report of the Compensation and Human Resources Committee's management group compensation review.
- 26. Ref: Exhibit F3-4-1, pg. 15: Incentive Programs
  - (a) The evidence states that management establishes the mandatory performance measures and target performance levels for the site scorecards.
    - (1) Please explain the process through which management establishes these mandatory performance measures and target performance levels each year
    - (2) What were the performance measures and target performance levels for 2005, 2006, and 2007?
- 27. Ref: Exhibit F3-4-1, pg. 16: Incentive Programs
  - (a) The evidence states that under the Annual Incentive Program (AIP), employees can earn annual cash awards if key cost control and operational objectives are met during the plan year.
    - (1) Please explain how these key cost control and operational objectives are established each year.
    - (2) What were the key cost control and operational measures for each of 2005, 2006, and 2007?
  - (b) Please describe the "rigorous review process" that the AIP undergoes and provide a copy of the report and/or results from the most recent review.
  - (c) The evidence states that authorized nuclear employees receive a license retention bonus of 14-20% of their base salary. Please explain how the OPG came up with this percentage, and provide a copy of any consultant's report, comparative analysis, or other documentation considering the level of the bonus.
  - (d) Likewise, pg. 17 states that management group employees who are required to work shifts are paid a leadership bonus of up to 30-40% of their base salary. Again, please explain how the OPG came up with this percentage, and provide a copy of any consultant's report, comparative analysis, or other documentation considering the level of the bonus.
- 28. Ref: Exhibit F3-4-1, pg. 19: Pension
  - (a) The evidence states that a number of changes have been made to the pension promise over the past few years and it goes on to list such changes. Please explain the rationale behind making these changes.
- 29. Ref: Exhibit F3-4-1, pg.23: Pension and Benefits Costs
  - (a) The evidence states that pension and OPEB costs and obligations are determined annually by independent actuaries using "management's best estimate assumptions." Please describe what "management's best estimate

assumptions” are and explain how management uses these assumptions to determine pension and OPEB costs. Please file all documents prepared in the last two years detailing the assumptions made and/or the rationales supporting them.

#### Capitalization and Cost of Capital

30. Ref: Exhibit C1-1-1, pg.1: Capital Structure
- (a) The evidence states that the methodology recommended by Foster Associates Inc. is consistent with the approach applied by most of Canada’s energy industry regulators. Please specify the energy industry regulators that apply this approach.
31. Ref: Exhibit C1-1-2, pg. 4: Planned New Debt Issues
- (a) Please provide a copy of the long-term interest rate forecast for the 10-year Government of Canada bonds published in December 2007 by Global Insight, which OPG says it used to forecast its long-term debt cost.
32. Ref: Exhibit C1-2-2, pg. 2: Existing Long-Term Debt Issues
- (a) The evidence states that OPG reached an agreement with the OEFC to provide financing of up to \$1B for the Niagara Tunnel project. Please provide a copy of this agreement, together with the interest rate analysis by OPG to support the rate provisions.

#### Capital Budget – Corporate Groups

33. Ref: Exhibit D3-1-1, pg. 1: Capital Structure
- (a) Please provide period-over-period explanations for the capital expenditures by OPG corporate groups that are presented in Ex. D3-1-1, Table 2.

### **HYDROELECTRIC:**

#### Administration and Overview

34. Ref: Exhibit A1-4-1, pg. 7
- (a) The evidence states “Electricity Production central support functions were unbundled and allocated to Hydroelectric and Fossil in 2006.” Please explain how and why the decision to unbundle the electricity production central support function was made and describe the cost implications of this decision. Please provide any business case or other formal analysis done showing the costs and/or benefits of this unbundling exercise.
35. Ref: Exhibit A1-4-1, pg. 24
- (a) The evidence states that a detailed plant condition assessment and life cycle plan is underway to determine the preferred option for DeCew Falls I. Please advise



when this plant condition assessment will be available and provide a copy of this report as soon as it is available.

#### Other Revenues – Regulated Hydroelectric

36. Ref: Exhibit G1-1-1, pg. 6: Segregated Mode of Operation
- (a) The evidence states that segregated mode of operation is conducted by OPG when it identifies economic opportunities in neighboring markets. Please explain the criteria and/or the process by which OPG determines that an opportunity in another market is “economic”.
37. Ref: Exhibit G1-1-1, table 1: Other Revenues – Regulated Hydroelectric
- (a) The chart indicates that the “actual” revenues have been much higher than the “budget” revenues in 2005, 2006, and 2007. Please explain why this is the case.
  - (b) The actual revenue in 2006 (\$57.9M) is significantly higher than revenues in other years. Please explain why this is the case.

#### Design of Hydroelectric Payment Amounts

38. Ref: Exhibit I1-1-1, pg. 13: Incremental Risk Associated with Proposed Incentive Mechanism
- (a) The evidence says that under the proposed mechanism, OPG faces more financial risk in the form of having to notionally purchase any shortfall in production, whereas no action is required with the existing mechanism. Please explain how OPG intends to mitigate this risk if the proposed mechanism is implemented.
39. Ref: Exhibit I1-1-1, pg. 15 – Chart 1
- (a) Please provide a copy of the full analysis through which the values presented in “Chart 1, Estimated Benefits of Sir Adam Beck Complex Operations to Consumers” were obtained.

#### Production Forecast

40. Ref: Exhibit E1-1-1, pg. 3: Hydroelectric Production Forecast
- (a) The evidence states that potential water transactions with New York Production Authority are computed in the forecasting application, however water transactions with respect to the use of OPG’s share of water by New York Power Authority are not included. Please explain why the New York Power Authority’s share of water is not included in the production forecast.
41. Ref: Exhibit E1-1-1, pg. 4: Hydroelectric Production Forecast
- (a) The evidence states that the International St. Lawrence River Board of Control has the authority to deviate from the approved plan under specific conditions. Please summarize what these “specific conditions” are.
42. Ref: Exhibit E1-1-2, pg. 1: Period-over-Period Explanations

- (a) The evidence states that more than one-half of the increase in 2009 from 2008 is due to the termination of OPG's obligation to return "Canadian Niagara Power replacement" energy to FortisOntario. How much energy is OPG obligated to return to FortisOntario prior to the termination of this obligation?

#### Operating Costs - Hydroelectric

- 43. Ref: Exhibit F1-2-1, pg: 2: Regulated Hydroelectric Base OM&A
  - (a) The evidence states that "maintenance plans are established in a maintenance management system." Please explain the process through which maintenance plans are established, and provide a copy of any source document that details or establishes the "maintenance management system".
- 44. Ref: Exhibit F1-2-1, pg. 9: Ottawa-St. Lawrence Plant Group Common Costs
  - (a) The evidence states that the Project Management Department was amalgamated with the Production Department in the Plant Group. Please provide the business case for the amalgamation of these two departments if such was prepared; otherwise please explain the rationale behind this decision to amalgamate.
- 45. Ref: Exhibit F1-3-2, pg.1: Period-over-Period Changes
  - (a) The evidence states that regulatory projects increase in 2009 due to a number of erosion protection projects. Please provide a list of each erosion protection project along with a brief summary of each.
- 46. Ref: Exhibit F1-3-2, pg. 2: Period-over-Period Changes
  - (a) The evidence mentions new projects in 2008 related to health and safety issues, regulatory issues related to dam safety and bridges, and projects related to maintaining reliable operations of Niagara's regulated facilities, which lead to an increase in OM&A project expenditures. Please provide a list of these projects along with a summary of each.
- 47. Ref: Exhibit F1-4-1, pg. 4: Gross Revenue Charge on Hydroelectric Generating Stations
  - (a) The evidence states that a cost factor is applied to convert the value of water in terms of production to monetary terms. Please explain what the cost factor is and how it is applied.
  - (b) The evidence states that annual costs associated with the St. Lawrence Seaway Management Corporation conveyance charges can vary significantly but are expected to be \$5M/year from 2007-2009. Please explain how OPG arrived at this number.

#### Capital Budget – Hydroelectric

- 48. Ref: Exhibit D1-1-1, pg. 3: Period-over-Period Explanations
  - (a) The evidence states that the schedule delay for the Niagara Tunnel Project could potentially "significantly impact" the project cost.

- (i) How much does the OPG estimate this “significant impact” to be?
- (ii) When will the review of the project cost estimate and changes to the project completion schedule take place?
- (iii) If the project cost is significantly impacted, how does the OPG plan to handle the increased cost?

49. Ref: Exhibit D1-1-1, pg. 8: Project Management Overview

- (a) Please explain how a definition phase in the hydroelectric project life cycle gets “deemed necessary.”
- (b) Who evaluates a project and makes the decision to seek approval for the execution phase of the project? What criteria do they use to evaluate the project and make such a decision?

50. Ref: Exhibit D1-1-1, pg. 9: Project Management Overview

- (a) Please provide a copy of the organization authority register, referred to in the evidence.
- (b) The evidence states that a “financial review is undertaken on all projects locally by the site controller”. Please describe what this financial review entails.