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Ontario

**BY E-MAIL**

May 2, 2008

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Board Staff Interrogatories - Board File # EB-2007-0905**
**Payment Amounts for OPG's Prescribed Facilities**

Enclosed are Board staff's Interrogatories regarding GEC/OSEA/Pembina's filed evidence.

Yours truly,

*Original signed by*

Richard Battista
Project Advisor

Encl.

**EB-2007-0905**

**Ontario Power Generation Inc.**

**Payment Amounts for Prescribed Generating Facilities**

**2008 and 2009 Revenue Requirement**

**Board Staff Interrogatories: Direct Testimony of Paul Chernick**

**(on behalf of GEC, OSEA, Pembina)**

1) On page 10, it states "Ms. McShane's estimated cost of capital for OPG's hydro operations is about 8%".
   (a) How was this conclusion arrived at given Ms. McShane did not identify a separate cost of capital for OPG's hydro operations?
   (b) Why is it concluded about 8% is "reasonable" based on Connecticut procurement for peaking capacity?
   (c) Is it Mr. Chernick's opinion that a peaking plant in Connecticut is a good proxy for a baseload hydroelectric plant in Ontario?
   (d) What generation type was the peaking plant in Connecticut?

2) On page 10, it states McShane estimated a 25 basis point increase in ROE would be required in the absence of the 25% fixed payment for nuclear. How did Mr. Chernick arrive at the conclusion that "since nuclear represents only 45% of OPG investment" then the entire nuclear risk would be four-fold higher than 25 basis points (or 100 basis points)? Also, please explain why Mr. Chernick then states on page 11 that the 25% fixed payment for nuclear would reduce the cost of capital by 32 basis points.

3) On page 9, it states OPG's proposals for nuclear (fixed payment, nuclear fuel variance account) would transfer the risk from OPG to consumers but the ROE should not be reduced to reflect that transfer of risk. The rationale appears to be so that OPG will make future nuclear investment decisions that are appropriate. Please explain why the Board should make its decision on an appropriate ROE for OPG's existing nuclear operations based on how it affects future nuclear investments and not on the degree of risk OPG would bear (transferred or not)? Also, why would it be appropriate for consumers to both assume these risks and compensate OPG for the same risks?