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01 May 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board

VIA RESS

Dear Ms Walli:

Re: EB-2007-0905 OPG Regulated Assets – GEC-Pembina-OSEA IRs to AMPCO

Attached please find our interrogatory in this matter in regard to the cost of capital evidence.

Sincerely,

David Poch

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GEC-Pembina-OSEA interrogatory to AMPCO

Mr. Chernick in his evidence states:

> There are at least two benefits of separate costs of capital for OPG's two lines of business. First, if the OEB establishes separate costs of capital and the mix of OPG's investment changes, due to nuclear retrofits or refurbishment or new nuclear or hydro capacity, OPG's average allowed return would automatically shift in the direction of the investment mix. The return would only need to be updated for changes in market rates or the underlying risk in either OPG business segment.
>
> Second, when OPG is reviewing options for capital investments—capital to reduce operating cost, capital to increase output, capital to extend operating lives—it's analysis should reflect the different costs of capital for nuclear and hydro investments.

Please comment on this suggestion of distinct costs of capital for the nuclear and hydraulic businesses on the rationale above and on the compatibility of that approach with the cost of capital proposal you have made. Assuming that the combined cost of capital would equal the value you have recommended for the initial rate period, what spread between the two divisions would you suggest (for both ratio and ROE as appropriate) if such a spread were to be utilized by the Board?