Ontario Power Generation Inc. (“OPG”)
Interrogatories for OEB Staff

INTERROGATORY #1

Ref: Page 19

Preamble: London Economics International (“LEI”) states that the ability to rely on OEFC for debt financing means that OPG is partly shielded from market disruptions like the recent credit crunch which has delayed financing for large capital intensive projects both in and out of the electric power industry.

Interrogatory

Please provide the details of all delays in financing for large capital intensive projects in the electric power industry, including Canada, which were caused by the recent ABCP credit crunch.

INTERROGATORY #2

Ref: Section 3.1.3

Preamble: LEI discusses the effect of the ONFA. The discussion relates to the risk to OPG related to the treatment and storage of nuclear fuel bundles. Nuclear liabilities also include decommissioning costs. LEI’s discussion does not include decommissioning costs.

Interrogatory

Please indicate where in its report LEI took into account the risks associated with decommissioning costs. If they did not, please explain why not.

INTERROGATORY #3

Ref: Figures 3, 8, 10, 12

Preamble: LEI provides a number of figures which indicate directionally the impact of various factors on OPG’s ability to raise debt.

Interrogatory

When LEI indicates that a factor increases OPG’s ability to raise debt, is the comparison to the Ontario wires companies, merchant generators, or relative to the circumstance where the specified factor is absent. For example, in Figure 10, LEI indicates that dispatch risk increases the ability to raise debt. Does LEI mean that OPG has an increased ability to raise debt relative to a merchant generator or simply relative to a situation where the dispatch risk is higher than it is for OPG?

INTERROGATORY #4

Ref: Figure 13

Preamble: LEI presents information on allowed returns and capital structures for a number of provincially-owned integrated electric utilities.

Interrogatory

(a) Please confirm that Newfoundland Power is investor-owned.
(b) Please explain why LEI considers Newfoundland Power to be a vertically integrated power utility.
(c) Is the debt of any of the provincially-owned utilities listed in Figure 13 guaranteed by the province? Do any of the provincially-owned utilities pay debt guarantee fees to the province? Should the fact that the debt is guaranteed be taken into account in assessing the risk compensation received by shareholders? Please provide a full explanation in the response.
(d) With respect to BC Hydro, could LEI please confirm that the deemed common equity ratio for the provincially-owned British Columbia Transmission Corporation (BCTC) is 40.7%.

INTERROGATORY #5

Ref: Page 38

Preamble: LEI states that U.S. allowed returns can vary regionally by as much as 500 basis points.

Interrogatory

Please provide support for this alleged variance, including any support that it is attributable to regional factors. Please provide all particulars and analysis relied upon.

INTERROGATORY #6

Ref: Page 38

Preamble: LEI state that many of the higher allowed returns are artifacts of earlier rate cases which have yet to be updated.

Interrogatory

To which allowed returns is LEI referring? Please provide the dates of the last rate cases for each utility considered. Please provide a list of all allowed returns which are the product of recent cases.

INTERROGATORY #7

Ref: Page 16

Preamble: LEI states that within a broad range, it may be possible to increase debt without equity holders demanding perfectly counterbalancing increases in their equity returns.

Interrogatory

Please confirm that the general proposition to which LEI is referring is that the overall cost of capital does not change materially as the debt ratio rises. If they cannot confirm, please explain why.

INTERROGATORY #8

Ref: Page 36

Preamble: LEI states that Hydro One is exposed to volume risk due to weather patterns.

Interrogatory

Please provide all quantitative analysis performed by LEI on the sensitivity of Hydro One's volumes and returns on equity to weather.

INTERROGATORY #9

Ref: Page 38

Preamble: LEI states that higher ROEs than are necessary to attract capital in the U.S. simply result in transfers from ratepayers to shareholders.

Interrogatory

a) Is it LEI's evidence that the ROEs in the U.S. are higher than necessary to attract capital? If yes, please provide evidence that is the case.

b) Does LEI believe that the comparable return standard should apply as well as the ability to attract capital when determining a fair and reasonable ROE?

c) Does LEI agree that there has been underinvestment in electricity transmission infrastructure in the U.S.? If the returns have been higher than necessary to attract capital, why would there be underinvestment?

INTERROGATORY #10

Ref: Page 11

Preamble: LEI recognizes that OPG is an OBCA corporation with a commercial mandate.

Interrogatory

In this context, please explain why the capital structures and ROEs of Crown Corporations without similar mandates, U.S. federal power authorities and not for profit electricity cooperatives are relevant to OPG.

INTERROGATORY #11

Ref: Figure 21

Preamble: LEI presents a risk continuum.

Interrogatory

a) Based on the diagram, it would appear that LEI concludes that the S&P 500 is less risky than the TSX Composite. If this is the case, please explain why.

b) Please summarize the reasons that LEI concludes that the OPA contract holders are more risky than Generation Income Trusts.

INTERROGATORY #12

Ref: Page 50

Preamble: LEI states that generation assets even with regulated payment streams appear to be slightly more risky than regulated network companies.

Interrogatory

Please provide LEI's quantitative assessment of how much more risky generation is, in terms of incremental cost of capital.

INTERROGATORY #13

Ref: Page 50

Preamble: LEI states that the OPG prescribed assets are less risky than generators with contracts from the OPA and should be able to sustain at least as much, if not more, debt in their capital structure.

Interrogatory

(a) Please provide details on the capital structures and returns on equity of all generators with contracts from OPA.

(b) In comparing private equity generators with OPA contracts to OPG, is it not necessary to have some knowledge of their associated return on equity and the cost of debt? Please explain why or why not.

INTERROGATORY #14

Ref: Page 50

Preamble: LEI states appropriate capitalization structures should be based on criteria used by credit rating agencies and lenders.

Interrogatory

Please provide the specific criteria set forth by the credit rating agencies to which LEI makes reference.

INTERROGATORY #15

Ref: Page 15, Section 3.1.1

Preamble: LEI states that "the cost of this guarantee to OPG is likely far lower than if it had to obtain such credit insurance from an AA rated third party."

Interrogatory

Please provide LEI's estimate of the cost of such credit insurance?

INTERROGATORY #16

Ref: Page 16, Footnote 24

Preamble: LEI estimates that OPG's saving with respect to the cost of borrowing as "at least 89 basis points" based on a comparison of 10-year AA and BBB+ bonds.

Interrogatory

What is LEI's estimate of the savings, if 10-year AA and BBB- bond yields were compared?

INTERROGATORY #17

Ref: Page 16

Interrogatory

Does "the provincial government's tendency to use OPG as an instrument of public policy rather than an entity which seeks to maximize profits" also raise issues for lenders to OPG in light of the fact that no explicit provincial guarantee supports the loan?

INTERROGATORY #18

Ref: Page 21

Preamble: LEI indicates that Entergy's independent nuclear company expects to raise $4.5 billion in debt financing when it is spun off from its parent company.

Interrogatory

What is the expected total capitalization of this new independent nuclear company? Are you able to identify what the capital structure and return on equity would have been for this company over the last five years on a stand alone basis?

INTERROGATORY #19

Ref: Page 45, Figure 20

Interrogatory

Have any of the merchant generators listed in Figure 20 on page 45 filed for bankruptcy? Which of the companies from Figure 20 have a less than investment grade credit rating?

INTERROGATORY #20

Ref: Page 43, Figure 19

Interrogatory

Please confirm that the average of the allowed rates of return on equity for the six vertically integrated utilities that have some nuclear generation in their asset mix included in Figure 19 on page 43 is approximately 10.94%? Please provide the S&P credit ratings for each of the vertically integrated utilities in Figure 19.

INTERROGATORY #21

Ref: Page 26, Figure 9, prescribed (sic) asset pricing relative to 2007 Ontario price duration curve.

Interrogatory

a) What analysis, if any, did you undertake to determine the differences, if any, between the spot price and the total revenue received from the spot price plus any contracted payments, allocated over all the hours that the contracted units ran, for the unit on the margin in each hour? Please provide any analyses undertaken with working papers.

b) If the contract payments made to units on the margin are material, would your conclusion regarding the appropriateness of the prescribed prices and your assessment of the likelihood of benefit to OPG from prescribed assets change?

INTERROGATORY #22

Ref: Page 30

Preamble: On page 30 of your evidence you make the following statement:

"[A]lthough nuclear plants North America-wide do not tend to be any more unreliable than other technology types, the issue is not so much the probability of occurrence as it is the high and possibly unknown cost of the outage when it does occur."

Interrogatory

a) Have you compared the nuclear unit outage probabilities across the units in OPG's nuclear fleet? If so, please provide the results and working papers.

b) Have you compared nuclear unit availabilities across the units in OPG's nuclear fleet? If so, please provide the results and working papers.

c) Given the differences in outage frequency and duration across OPG's nuclear fleet, have you analyzed the extent to which such differences may be attributable to differences in design, components, and materials? If so, please provide the results and working papers.

INTERROGATORY #23

Ref: Page 38

Preamble: On page 38 of your evidence you have the following statement:

"Canadians also invest non-trivial amounts in the United Kingdom, where allowed returns to wires companies are much lower." (than in the United States)

Interrogatory

a) What has the U.K inflation rate been during the past decade?

b) How do the 7 and 7.5 %, for transmission and distribution respectively, **post tax real** rates reported in Figure 15 as OFGEM's rate for wires only companies relate to Hydro One's rates, and to the rates listed for U.S. wires only companies?

INTERROGATORY #24

Interrogatory

Please provide a table showing:

a) the recommended returns on equity and capital structure in each case in which LEI (A. J. Goulding) has appeared since 2000

b) the date of the testimony

c) the client on whose behalf the testimony was prepared

d) the regulatory jurisdiction

e) the date of the decision

f) the awarded returns on equity and capital structures – if the case resulted in a settlement, please so indicate.

Please provide copies of all testimonies and accompanying schedules for each of the proceedings listed in the table.