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Ontario

BY E-MAIL

May 8, 2008

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

Attn: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Board Staff Questions to OPG - Technical Conference
Board File # EB-2007-0905 - Payment Amounts for
OPG's Prescribed Facilities

Enclosed are Board staff's questions for OPG for the May 13-14 Technical Conference.

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

<u>Technical Conference:</u>

<u>Board staff follow-up questions on OPG responses to interrogatories</u>

CAPITAL STRUCTURE AND RETURN ON EQUITY (Exhibit C)

1. According to the response in L-T1-S3 (Board Staff IR#3), OPG expects the incremental ROE associated with the hydro incentive mechanism to only be 0.3% in 2009 compared to 1.5% in 2006. Please explain why OPG expects the incremental ROE to be so much lower in 2009.

2. In regard to L-T1-S4 (Board Staff IR#4), Ms. McShane confirmed the utilities listed in Schedule 28 were used to establish a premium of 1.5%. Is it correct to interpret that to mean that absent the adjustment for the U.S. utilities in Schedule 28, the recommended ROE would have been 9% (10.5% minus 1.5%)?

3. Does Ms. McShane know why Allete, Black Hills, Empire District and IDACORP, as discussed in L-T1-S5 (Board Staff IR#5), have among the highest common equity ratios of the utilities in Schedule 28? For example, the CER for Allete is 63% and Black Hills at 50%. Is it likely because they are relatively small utilities in terms of generation at about 10% the size of OPG's regulated operations?

4. Board staff understands from the response, in L-T1-S6 (Board Staff IR#6), that the rationale for the request for a 50 basis point financing flexibility adjustment is not based on the need to issue corporate debt in 2008 but because it has been provided to other Ontario utilities. Is that correct? Also, approximately how much incremental corporate debt does OPG plan to go directly to the market for in 2009?

5. With respect to L-T1-S9 (Board Staff IR #9), the response notes *"There would be no adjustment, even if the nuclear outage loss were replaced by another OPG owned generation facility. The assessment of the incremental equity risk premium for OPG (translated into an equity ratio) was made using samples of integrated utilities with a relatively high proportion of assets in diversified generation portfolios. The estimates of the incremental risk premium that Ms. McShane made are applicable to companies with diversified generation portfolios and with an ability to replace production from a plant experiencing an outage with production from other generating plants."* How many of the vertically integrated utilities in Ms. McShane's sample account for over 70% of the generation in the

jurisdiction that they operate in (similar to OPG)? In addition, how many of those utilities have a portion of their generation portfolio regulated and a portion unregulated?

6. The response in L-T1-S13 (Board staff IR #13) states, *"Ms. McShane did take into account the risk mitigating impacts on the cost of capital of the applied-for deferral accounts."* It appears Ms. McShane meant she took into account applied-for variance accounts (as well as deferral accounts) since she noted in that response *"the [water conditions] variance account is a key risk mitigator for OPG"* to clarify she had taken them into account. Please confirm. Also, given Ms. McShane did make adjustments for the requested variance and deferral accounts as explained in L-T1-S13, please identify what Ms. McShane's recommended ROE and capital structure would be under a scenario whereby none of the applied-for variance and deferral accounts were approved by the Board.

OPERATING COSTS (Exhibit F)

5.1 Are the Operation, Maintenance and Administration ("OM&A") budgets for the prescribed hydroelectric and nuclear business appropriate? (F1/T1/S1, F2/T1/S1)

7. OPG notes in L-T1-S34 (Board Staff IR #34) that OPG uses Electric Utility Cost Group (or EUCG) information, for cost comparison because it provides for an "apples to apples" comparison of costs. The response refers to A1-T4-S3, Section 9 where a few comparisons of OPG to EUCG have been provided. Can OPG please provide the more detailed EUCG information (i.e., study) for which those comparisons are based?

8. Further to L-T1-S34 (Board Staff IR #34):

   a. OPG states "*OPG does not know what is included in the Bruce Power OM&A cost shown in the above chart*". The chart below attempts to clarify what was (and was not) included from the Annual Reports of OPG and Bruce. The highlighted figures are the basis for those used in the interrogatory bar chart. To assist Board staff in better understanding what material items may differ for OPG (relative to Bruce Power), please provide a breakdown of what that "O&M" line item is comprised of for OPG.

2006 Annual Report pg 31-32 (OPG)

OPG - 2006

$M			
Fuel	$122	$122	$0
O&M	$1,967	$1,967	$1,967
Nuclear Waste	$119	$0	$0
Amortization	$343	$0	$0
Property and capital taxes	$44	$0	$0
	$2,595	$2,089	$1,967
TWh	46.9	46.9	46.9
$ per MWh	$55.33	$44.54	$41.94

2006 Annual Report pg 32 (Bruce)

Bruce Power - 2006

$M			
Fuel	$95	$95	$0
O&M	$912	$912	$912
Rent	$170	$0	$0
Amortization	$134	$0	$0
	$1,311	$1,007	$912
TWh	36.47	36.47	36.47
$ per MWh	$35.95	$27.61	$25.01

b. OPG also notes *"It is more meaningful, however, to benchmark costs based on a "plant to plant" comparison, using plants with similar size units, as discussed at Ex. A1-T4-S3. Unit size will affect production costs due to economies of scale. As per WANO Q4 2007 Report, the average size of a U.S. nuclear operating unit is approximately 900 MWs, while the Bruce Power average is around 840 MWs and OPG average is 700 MWs."* It is Board staff's understanding that part of the rationale for four smaller units (but more units) at Pickering was to achieve better economies of scale relative to the larger single unit plants often found in the U.S. (i.e., 2000 MW vs 900 MW). Is that understanding correct?

c. OPG's response in L-1-34 also indicates that Darlington compares favourably in benchmarking tests for comparable size nuclear units, but that such information is not available for the Pickering units. Does OPG have any available information for single CANDU 6 units, such as NB Power's Point Lepreau, Hydro Quebec's Gentilly or Korea's Wolsung Candu units, to allow for such a comparison against Pickering's OM&A budgets? If so, please file the information. If not, does OPG have any plans to do such benchmarking?

9. It appears from the response in L-T1-S40 that non-regular (contract) staff currently performing the duties are still needed (i.e., duties still need to be done) but are being converted to regular (permanent) staff.

   a. Is that a correct interpretation or is OPG not retaining the contract staff and hiring 567 <u>new</u> staff (from outside OPG) into permanent positions?
   b. If the former is a correct interpretation, what was the rationale for what appears to be eliminating the use of contract staff?

5.3 Are the 2008 and 2009 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate? (F3/T4/S1)

10. In referring to L-T1-S51 (Board staff IR#51), it clarifies that OPG staff eligible for the license retention bonus of between 14% - 20% are also eligible to receive the "goal sharing" bonus. How many OPG staff receive the license retention bonus?

11. The response in L-T1-S53 (Board staff IR #53) notes "In standard compensation practice the term "on market" refers to a value that is within plus or minus 10 percent of the median values."

    a. Where can we find it documented that the term "on market" refers to a value that is within plus or minus 10% of the median values?
    b. Also, the response notes that based on this definition of "on market", OPG has 19 positions that are above market and those are over 7% higher than the "on market" definition. We are not certain how to interpret this. Does it mean the baseline (for calculating the 7%) is 10% above the median and therefore the 19 positions are about 17% higher than the median?
    c. We understand the rationale as explained in the response for use of a definition of "on market". However, as per the request in Interrogatory #53, please quantify how OPG compares against the median for all 34 positions without adjusting for that definition.

12. The response in L-T1-S55 (Board staff IR#55) notes that, based on the survey by Watson Wyatt, bonuses were included in pensionable earnings by 59% of Energy, Resources and Utilities companies.
    a. Can OPG please provide a list of the companies in the Watson Wyatt survey?
    b. What percentage of that 59% included 100% of incentive amounts in pensionable earnings?

5.4 Are the corporate costs allocated to the regulated hydroelectric and nuclear businesses appropriate? (F3/T1/S1, F3/T1/S2, F4/T1/S1)

13. With respect to L-T1-S60:
    a. Please clarify whether the Government made provisions for OPG to recover from consumers the Global Adjustment amounts paid by OPG for the 2005 to 2007 period.
    b. It is Board staff's understanding that OPG's payments for its regulated operations have a significant impact on the Global Adjustment and therefore on such an estimate. Does OPG plan to update the forecast of the Global Adjustment for this purpose based on the actual regulated payment amounts approved by the Board?
    c. L-T1-S60 indicates OPG has forecast the Global Adjustment and OPG Rebate for 2008 and 2009 at over $25M. A forecast of the Global Adjustment and OPG Rebate requires a forecast of all elements that impact the electricity line of the bill. Please provide OPG's detailed forecast for each of the test years that separately addresses each applicable factor addressed in the Board's most recent RPP Price Report and Navigant's accompanying Ontario Wholesale Electricity Market Price Forecast (links below). This includes OPG's assumptions on NUG contract impacts, OPA conservation spending ,OPA contract impacts, Standard Offer, coal prices, natural gas prices, weather, new OPA

generation going into service, the HOEP, etc. The intent is for OPG to provide a detailed calculation that shows how the forecast for the Global Adjustment and OPG Rebate were arrived at.

- Regulated Price Plan Price Report **(issued Apr 11-08)**
- Ontario Wholesale Electricity Market Price Forecast **(issued Apr 11-08)]**

5.7 Is the forecast of nuclear fuel costs appropriate? (F2/T5/S1, F2/T5/S2)

14. The initial application was submitted when the uranium price decline had just begun. OPG's response to IR #64 (L-T1-S64) notes that lower market prices would directly impact the "base" price of any new contracts. Given market prices have remained lower since the initial application was filed, please clarify what the primary driver was in terms of the increase in nuclear fuel costs when the application was recently updated?

15. OPG's response in L-T1-S65 (Board staff IR#65) in relation to nuclear fuel costs indicates OPG has physically contracted for 100% in both 2008 and 2009. It notes *"Between 2003 and 2007 OPG negotiated eight new uranium supply contracts which now provide physical coverage and price diversity for a portion of expected requirements through 2017. The physical coverage is 100 percent of requirements in 2008 and 2009".* OPG also provided clarification in L-T1-S64 (Board staff IR#64) that *"A decline (or increase) in market price does not impact existing indexed contracts".* Please clarify what drives the request for a variance account within the context of these two responses.