May 9, 2008

BY EMAIL & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Ms. Walli:

Board File No. EB-2007-0905
Payment Amounts for Ontario Power Generation Inc.'s Prescribed Facilities
Energy Probe Response to GEC-Pembina-OSEA Interrogatory

Attached please find two hard copies of the Response of Energy Probe Research Foundation (Energy Probe) to an interrogatory from Green Energy Coalition/Pembina Institute/Ontario Sustainable Energy Association (M/T 6.7/Sch.1). An electronic version of this communication will be forwarded in PDF format.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. David Poch, GEC-Pembina-OSEA (By email)
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GEC-Pembina-OSEA Interrogatory # 1 to Energy Probe

Ref: Evidence of Paul Chernick on Behalf of GEC-Pembina-OESA

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 refurbishments 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 input, capital to extend operating lives – its 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 rational above and on the compatibility of that approach with the cost of capital 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?

Response:

Energy Probe notes that this interrogatory is not addressed to the filed evidence prepared by Dr. Schwartz. Dr. Schwartz is not in a position to comment on the evidence of Paul Chernick.