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May 9, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th floor
Toronto ON M4P 1E4

Dear Ms Walli

Ontario Power Generation Inc. ("OPG")
Board File No.: EB-2007-0905
Our File No.: 339583-000001

The clarifications Canadian Manufacturers & Exporters ("CME") will be seeking at the Technical Conference next week with respect to OPG's Responses to Interrogatories are set forth below.

1. <u>Customer Bill Impacts and Planning and Budget Guidelines</u>

Information on the guidelines considered by OPG to budget its revenue requirement has been provided in response to SEC Interrogatory No. 45 (Ex.L, T14, S45) and elsewhere. Board Staff Interrogatory No. 7 (Ex.L, T1, S7) refers to the February 23, 2005, Government Backgrounder describing the objectives for the prices of electricity produced by OPG. One of these objectives is to "protect Ontario's medium and large businesses by ensuring rates are stable and competitive." The consumer bill impacts of the approximate $1B revenue deficiency OPG seeks are referenced in the response to CCC Interrogatory No. 48 (Ex.L, T3, S48). There, OPG notes that a 14% increase in its revenue requirement translates into a typical residential consumer bill impact of about 2.7%.

In the context of this information, at the Technical Conference, CME will be seeking clarification from OPG with respect to the following:

(a) To what extent does the objective that OPG's prices for electricity to "protect Ontario's medium and large businesses by ensuring rates are stable and competitive" influence the planning and budget process that has produced the approximate $1B revenue deficiency which OPG claims in this case? What is the inter-relationship between consumer bill impacts and OPG's spending plans?

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(b) The manner in which OPG calculates the bill impacts of its revenue requirement proposal on typical customers needs to be explained. In particular, CME wishes to understand how to calculate the bill impact of OPG's proposals on the medium and large Ontario businesses referenced in the Ontario Government's February 23, 2005 Backgrounder. Attached is a slide from a presentation made to CME on April 29, 2008, by a representative of the Ontario Ministry of Energy, showing the Pricing on a Large Industrial Bill per 1,000/MWh in 2007. Using this information, and the information OPG relies upon to derive the customer class "base line" for its customer impact calculations, please explain how the customer bill impacts of OPG's revenue requirement proposal on Ontario's medium and large businesses can be estimated?

(c) According to the Government's February 23, 2005 Backgrounder, prices for OPG production are to be designed to ensure that the electricity rates for Ontario's medium and large businesses are competitive. CME seeks clarification of the manner in which OPG considers the impact of its approximate $1B revenue deficiency claim on the competitiveness of Ontario's medium and large businesses:

(i) What comparisons does OPG make of the electricity prices for Ontario's medium and large businesses, which will result if its $1B revenue deficiency is approved, to prices being paid by competitors of those businesses located elsewhere?

(ii) What information is available to show the electricity prices which competitors of Ontario's medium and large businesses, located elsewhere, are paying for electricity?

2. <u>Stranded Debt Component of Electricity Prices</u>

The stranded debt component of electricity prices in Ontario is referenced in the evidence filed by OPG and a number of other parties. CME seeks clarification of the extent to which payments on account of the stranded debt component of electricity prices have any influence on the "Mitigation of Payment Amount Increases" features of OPG's Application referenced in Ex.K1, T1, S2. In this context, can OPG clarify whether it does anything to track the extent to which the stranded debt component of electricity prices is or is not being paid down by the Ontario Government in a timely manner, and does the extent to which the stranded debt component of electricity prices is being or should be paid down have any influence on the "Mitigation of Payment Amount Increases" feature of OPG's proposals?

3. <u>Compatibility of OPG Application Budgets with its Presentation to the OPG Board of Directors</u>

In response to CME Interrogatory No. 2 (Ex.L4, T1, S2), OPG produced copies of the PowerPoint presentations to its Board of Directors of its Hydro Business Plan 2008 to 2010 and its 2008 to 2010 Nuclear Generation Development and Services and Nuclear Operations Business Plans. A number of items in these presentations, including OM&A and Capital Costs, have been redacted. As a result, it is impossible for CME to determine the extent to which the information presented to the OPG Board of Directors reconciles with the Application materials. Without getting into numbers, CME will be seeking clarification of the extent to which words have been redacted from the materials produced and some clarification of the meaning of some of the phrases used in these presentations. For example, in Ex.L-4-2 Attachment 1 at page 6, CME will seek clarification of the meaning to be ascribed to the phrase "Hydro OM&A Submission" and "Hydro Capital Submission". There are a number of pages where words appear to have been redacted from the PowerPoint presentations and CME will be seeking clarification of these redactions. CME will also be seeking to ascertain whether OPG will produce an unredacted copy of the materials under the auspices of a Board Confidentiality Order and Confidentiality Undertakings executed by those who wish to consider unredacted copies of OPG's productions.

4. <u>Impacts of Capital Structure and Cost of Capital Differences Between OPG and Others</u>

A number of OPG's Interrogatory Responses pertain to the impacts of using an Equity Ratio and a Rate of Return on Equity ("ROE") different from those proposed by OPG. In order to have the estimated impact of these differences in one place, CME will be asking OPG to estimate the extent to which the revenue deficiency will be reduced in each of the following Equity Ratio/ROE scenarios:

(a) Equity ratio of 40% and ROE of 7.75%,

(b) Equity ratio of 47% and ROE of 7.1%, and

(c) Equity ratio of 45% and ROE of 7.64%.

We hope that the foregoing will assist OPG witnesses in preparing for the Technical Conference next week.

Yours very truly,

Peter C.P. Thompson, Q.C.

PCT\slc
enclosure
c. Interested Parties EB-2007-0905
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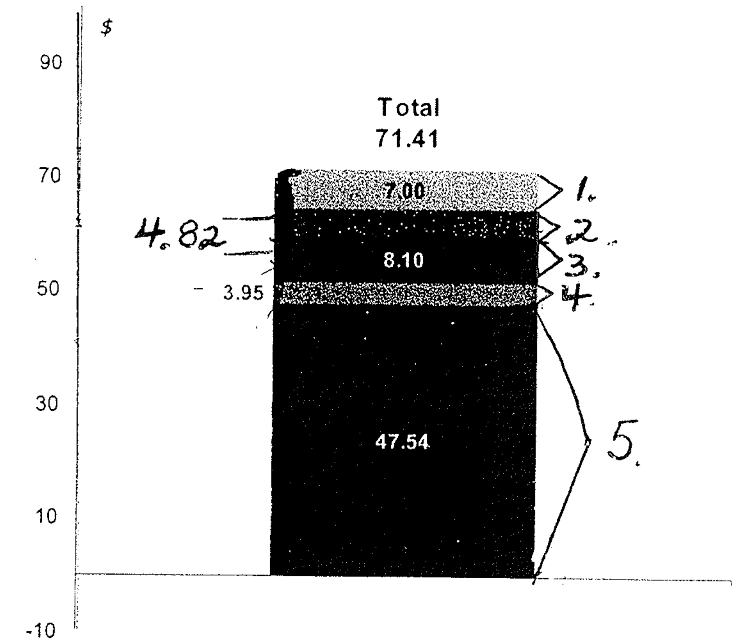
Ministry of Energy

Pricing – Large Industrial Bill Per 1,000 kWh in 2007



- Debt Retirement Charge 1
- Regulatory Charges 2.
- Delivery 3.
- Global Adjustment 4.
- Electricity 5.

In addition to the charges in the chart, industrial customers received an OPG rebate in 2007 of $1.40/MWh.

Price based on actual 2007 prices for a directly connected customer (ie, not subject to an LDC's distribution charges).

Source: Ministry of Energy using IESO figures

Ontario