

**Ontario Energy Board**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c.15, (Schedule B);

**AND IN THE MATTER OF** an Application by Ontario Power  
Generation Inc. pursuant to section 78.1 of the *Ontario Energy  
Board Act, 1998* for an order or orders determining payment  
amounts for the output of certain of its generating facilities.

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**INTERROGATORIES OF**  
**ENERGY PROBE RESEARCH FOUNDATION**  
**(“ENERGY PROBE”)**

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**February 28, 2014**

# **ONTARIO POWER GENERATION 2014 - 2015 PAYMENT AMOUNTS**

**EB-2013-0321**

## **Energy Probe Research Foundation Interrogatories**

**Issue 2.1 Are the amounts proposed for rate base appropriate?**

### **2.1-Energy Probe-1**

**Ref: Exh. I1-1-1 attachment 1, p.9**

**As noted on the OEB Adjustment Input Sheet, the rate base for each of 2014 and 2015 includes \$62 million of cash working capital.**

- a) Will the cash holdings be held in an interest-bearing account or short-term investment?**
- b) What projected rate of return does OPG assume these cash holdings will earn?**
- c) Is there an incentive for OPG to hold cash since it earns the overall regulated rate of return on these holding of cash?**

**Issue 3.3 Are OPG's proposed costs for its long-term and short-term debt components of its capital structure appropriate?**

### **3.3-Energy Probe-2**

**Ref: Exh. C1/T1/Sch. 2, p.3**

**OPG states that the average remaining term of its outstanding long-term debt is approximately 8.4 years.**

- a) Is this a simple average of the remaining terms on outstanding long-term debt or a weighted-average?**

- b) If a weighted average, please explain briefly the weights used in the calculation.

### **3.3-Energy Probe-3**

**Ref: Exh. C1/T1/Sch. 2, p.3**

**OPG states that its agreements with OEFC contain call provisions that make it more expensive to redeem the debt compared to the potential benefit of refinancing in a lower interest-rate environment.**

- a) Does “refinancing” mean purchasing an outstanding bond at its market price and financing that purchase by issuing a new bond at a lower interest rate?
- b) Do the call provisions in the OEFC agreements allow OPG to redeem an outstanding bond at its face value (rather than its market value) plus accrued interest?
- c) Please briefly describe the other portions of the relevant agreements with the OEFC that make redemption more expensive.
- d) If the answer to c) is yes, and considering that lower interest rates would raise the market price of the outstanding bond above its face value, why would it be more expensive to redeem than to finance the purchase of the bond on the market at a lower interest rate?

### **3.3-Energy Probe-4**

**Ref: Exh. C1/T1/Sch. 2, p.4**

**OPG states that it is matching the term of its debt portfolio “to better match” the term of its underlying assets thereby reducing refinancing risk.**

- a) Please explain briefly how the matching of terms reduces refinancing risk.
- b) Does OPG agree that longer-term debt is generally more interest-rate sensitive than short-term debt?

- c) Does “matching” the term of the debt portfolio with the underlying assets indicate that OPG believes its long-term assets are similarly interest-rate sensitive?

### **3.3-Energy Probe-5**

**Ref: Exh. C1/T1/Sch. 2, p.4**

**OPG indicates that the credit margin on its corporate debt will be the same as on its project debt because the credit margin “evaluates OPG as a borrowing entity rather than the project”.**

- a) **Do project lenders to OPG have the same degree and extent of recourse to OPG assets as its corporate lenders in the event of default?**
- b) **If project lenders evaluate OPG as a whole as the borrowing entity and require the same credit margin, what is the benefit to OPG of issuing project debt?**

### **3.3-Energy Probe-6**

**Ref: Exh. C1/T1/Sch. 2, p.5**

**Please explain the following statement at the bottom of p.5:**

**“To the extent that a forecast debt issue is hedged and OPG does not ultimately require the underlying debt issue, the impact of the hedge transaction is charged to unregulated operations.”**

### **3.3-Energy Probe-7**

**Ref: Exh. C1/T1/Sch. 3, p.1**

**What is the stamping fee that OPG pays for borrowing by way of issuing bankers’ acceptances?**