UNDERTAKING JT2.1

Undertaking

To provide additional information with respect to Environmental Defence interrogatory 5, issue 4.7, as set out in Mr. Elson's letter.

Response

OPG provides the following in response to Mr. Elson's letter of April 14, 2014.

a) Management's "high confidence" estimate of the total cost of the DRP, including interest and escalation is $12.9B as stated in Ex D2-2-1 Attachment 5, page 2 of 47. This is the expected expenditure in nominal dollars or dollars of the year. The table below provides a breakdown of the estimate in 2013 and 2014$.

	2013$	**2014$**
High Confidence Estimate	$10.0B	$10.2B
Escalation	$1.5B	$1.3B
Interest	$1.4B	$1.4B
Total	**$12.9B**	**$12.9B**

b) Confirmed

c) i) No, it is not OPG's position that it can finance DRP for an after tax return of 7%. Please note that in Mr. Elson's letter, discount rate and rate of return are used interchangeably, which is not correct. The 7% referenced is the discount rate OPG applied in its calculation of the DRP LUEC. For rate of return (on equity), see response to ED IR#005. OPG believes 7% is the appropriate discount rate to evaluate the DRP. In EB-2010-008, OPG explained that it assesses differences in risk through cash flows rather than through the discount rate. OPG continues to maintain that risks have been adequately accounted for in the project cash flows.
Mr. Elson's letter references the 2005 CIBC World Markets report and quotes the Bruce Power LP cost of equity to have been assessed by CIBC at between 13.7% and 18% and incorrectly implies that this rate should be compared to OPG's 7% discount rate. Again the cost of equity and discount rates for use in LUEC calculations are different things. Generally speaking rate regulation is lower risk than power purchase contracts. And, in the rate regulated environment in which OPG operates, the ratepayers benefit from this lower risk through a lower cost of financing.

ii) OPG does not have explicit commitment s from the Ontario Electricity Financial Corporation to provide financing for the DRP. OPG expects to finance DRP through corporate debt issued to the Ontario Electricity Financial Corporation which is addressed in Section 3,2 Corporate Long-Term Debt Issues and Section 4.3 Planned Corporate Long Term Debt Issues, Exh. C1-1-2. OPG's sources of equity are its retained earnings and equity investment from its Shareholder.

d) OPG's response to Ex. L-04.7 ED-005 (f) has provided the requested information. The total cost of the DRP is the basis of the estimate of 3.2 cents/kWh shown in the table provided. The LUEC calculation includes interest and escalation (see also responses to L-04 7.1 Staff-031 and L-04 10-17 SEC-055).