Ontario Power Generation (OPG)
2017-2021 Payment Amounts Application
AMPCO Interrogatories on Exhibit M3
Common Equity Ratio for OPG's Regulated Generation

AMPCO #1

Reference 1: Exhibit M3
Reference 2: EB-2013-0321 Decision with Reasons

At Reference 2, the Board's Decision with Reasons in EB-2013-0321 (page 114) states:

> "OPG raised various other arguments with respect to the need for at least the same, or higher, equity thickness. One of these arguments was that there is a greater risk associated with the future move to incentive regulation. The Board does not accept that moving to incentive regulation significantly increases risk to the entity such that the capital structure should be reset, and has not done so for any of the other companies that it regulates. … The Board therefore is not persuaded by the comments made by OPG and its consultant that the future move to an incentive regulatory mechanism for OPG increases business risk such that a higher equity thickness should be considered."

At Reference 1, The Brattle Group Inc. Report entitled "Common Equity Ratio for OPG's Regulated Generation" at page 4:

> "Compared to the time around EB-2013-0321, OPG is exposed to larger variability in its income due to the move from cost of service to incentive regulation for regulated hydroelectric facilities."

a) Please rationalize the Brattle Group's opinion with regard to the OEB's prior decision on the same matter.

b) Does the contrast in the above statements cause Brattle to rethink its position in respect of Regulatory Risk? If not, why not?

AMPCO #2

Reference: EB-2016-0152 Exhibit M3; Technical Conference Volume 1, page 163

a) At the time it created its report, did the Brattle Group understand that OPG's $12.8B total cost estimate for DRP is constructed on a "P90" basis – that is, OPG has a 90% confidence interval that the total cost of DRP will come in at or less than $12.8B?

b) Does this high confidence interval, in concert with the existing support that the government has set out for DRP (financial backstop, specific LTEP inclusion, O.Reg. 53/05 support for need and for recovery of deferral account balances) cause Brattle to rethink its position in respect of Construction Risk? If not, why not?

AMPCO #3

Reference: Exhibit M3

> As set out on page 25 of the report, OPG's rate smoothing proposal will reduce OPG's cash flow during the DRP construction period (also relevant is the fact that the deferral account will attract interest as per O. Reg. 53/05). However, as also set out on the same page, this will be offset by the proposal to increase nuclear payments by 11 percent annually to 2021.

a) Please comment on whether these two points combined result in an net increase in risk or a net decrease in risk.

AMPCO #4

Reference: Exhibit M3, Ex D2-T1-S2 Table 1 and Ex A2-T3-S1 Attachments

> At page 10, The Brattle Group Inc. Report entitled "Common Equity Ratio for OPG's Regulated Generation" states:
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> > "A delayed recovery of expended capital is normal in capital intensive industries – wherein capital intensive assets have longer lead times for development and operationalization. Therefore, in such industries, there is generally an increased strain on the utility's credit metrics during major capital development programs, leading to upward pressure on the utility's financial risk profile."

a) Between 2012 and 2015, DBRS ratings remained unchanged. In the same time period, S&P downgraded OPG, but did so for consistency with its downgrade of the Province of Ontario - S&P's assessment of OPG's financial risk profile remained unchanged. Between 2012 and the end of 2015, OPG spent $2.639B in capital on DRP. Despite mention of the issue, neither DBRS nor S&P have taken specific action as a direct result of increased capex over the period.

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Please Illustrate the harm to OPG's credit metrics that resulted from this level of capital expenditure.

AMPCO #5

Reference: Ex B1-T1-S1, page 3 of 8, Chart 1

a) If OPG does not close $4.8B of the DRP to its nuclear rate base in 2020 as proposed, and instead closes it at some later date outside the 2017-2021 rate period, what impact does this have on Brattle's position with respect to equity thickness for the 2017-2021 period? Please explain.