CAPITAL STRUCTURE AND RETURN ON EQUITY

1.0 PURPOSE

This evidence describes the methodology that OPG has used to determine its capital structure and return on equity ("ROE") for the IR term.

2.0 CAPITAL STRUCTURE

OPG is seeking approval of the IR term cost of capital as presented in Ex. C1-1-1, Tables 1 through 5. In determining the cost of capital, OPG has applied the capital structure of 50% equity and 50% debt. The proposed capital structure is supported by the findings of the Common Equity Ratio Study carried out by Concentric Energy Advisors at Attachment 1 to this exhibit. The engagement letter executed with Concentric Energy Advisors is filed as Attachment 2 to this exhibit.

The proposed capital structure reflects the material increase in OPG's business risks since EB-2016-0152, primarily driven by: the Darlington Refurbishment Program; the aging and retirement of the Pickering nuclear generating station; the continued shift of OPG's rate base to reflect a greater portion of nuclear assets, combined with the decline in nuclear generation; and increasing climate change risks.

The debt component of OPG's capital structure is determined using the methodologies approved by the OEB in EB-2007-0905, EB-2010-0008, EB-2013-0321, and EB-2016-0152. These are described in Ex. C1-1-2 and Ex. C1-1-3 for long-term and short-term debt, respectively. The capitalization and cost of capital for the 2016-2026 period is summarized in Ex. C1-1-1, Tables 1-11. OPG has applied this capitalization to the rate base, as adjusted to reflect the application of the "lesser of Asset Retirement Costs and Unfunded Nuclear Liabilities" provision applied by the OEB in EB-2007-0905, EB-2010-0008, EB-2013-0321, and EB-2016-0152.

3.0 RETURN ON COMMON EQUITY FOR IR TERM

OPG's Application incorporates an ROE of 8.34% as this is the latest rate published by the OEB (November 9, 2020) pursuant to the ROE formula as set out in *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 2009, EB-2009-0084* ("Cost of Capital Report").

OPG proposes to establish the ROE for the IR term using the prevailing ROE specified by the OEB in accordance with the OEB's Cost of Capital Report as of the effective date of the Payment Amounts Order. Consistent with the OEB's decision and order in the EB-2016-0152 proceeding, OPG proposes to use the same ROE throughout the IR period.[1]

[1] EB-2016-0152, Decision and Order, pp. 110-111.

ATTACHMENTS

Attachment 1: Ontario Power Generation Common Equity Ration Study by Concentric Energy Advisors.

Attachment 2: Executed Engagement Letter for Concentric Energy Advisors