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ONTARIO ENERGY BOARD

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April 1, 2008

2/4/08

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

EB-2007-0905

BOARD SECRETARY	
File No:	Sub File: 9
Panel	GK/CC/BR
Licensing	AF
Other	DC/MB
00/04	

Dear Ms Walli,

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

We are solicitors for Canadian Manufacturers & Exporters ("CME"). Please find enclosed the following:

1. two (2) copies of our letter and Interrogatories submitted through the OEB's Web Portal, and

2. one (1) copy of the confirmation screen indicating reference no. 1695 for this filing.

Copies have been sent to interested parties.

Please contact the undersigned if the Board requires any further information.

Yours very truly

Vincent J. DeRose

\slc
enclosures

OTT01\3424527\1

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ONTARIO ENERGY BOARD

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April 1, 2008

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Kirsten Walli
Board Secretary
Ontario Energy Board
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

Pursuant to Procedural Order No. 2 in these proceedings, we enclose the Interrogatories of Canadian Manufacturers & Exporters ("CME") for Ontario Power Generation Inc. ("OPG").

Copies are being sent to interested parties.

Please contact me if you require any additional information.

Yours very truly,

Vincent J. DeRose

\slc
c. Ontario Power Generation Inc.
Interested Parties EB-2007-0905
Paul Clipsham (CME)

OTT01\3422506\1

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.

INTERROGATORIES OF CANADIAN MANUFACTURERS & EXPORTERS ("CME") TO ONTARIO POWER GENERATION INC. ("OPG")

1. **Reference:** **Drivers of Revenue Deficiency, Ex.A1, T3, S1**

Issue Nos.: **2.1, 2.2, 5.1, 5.3 and 7.1**

Issues:

2.1 What is the appropriate capital structure for OPG's regulated business for the 2008 and 2009 test years? Should the same capital structure be used for both OPG's regulated hydroelectric and nuclear businesses? If not, what capital structure is appropriate for each business?

2.2 What is the appropriate return on equity (ROE) for OPG's regulated business for the 2008 and 2009 test years? Should the ROE be the same for both OPG's regulated hydroelectric and nuclear businesses? If not, what is the appropriate ROE for each business?

5.1 Are the Operation, Maintenance and Administration ("OM&A") budgets for the prescribed hydroelectric and nuclear business appropriate?

5.3 Are the 2008 and 2009 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

7.1 The proposed rate base includes the estimated net book value of OPG's nuclear fixed assets, which in turn includes amounts related to OPG's obligations to decommission the nuclear plants and manage nuclear waste. Do the amounts fall within the parameters of O. Reg 53/05? The proposed revenue requirement includes depreciation of those nuclear fixed asset costs and a return on rate base. Is this method of recovering nuclear fixed asset removal and nuclear waste management costs appropriate? Or should alternative recovery mechanisms be considered?

OPG has forecast a total revenue deficiency of $1,029.2M for its prescribed facilities for the 21 month test period starting April 1, 2008, to December 31, 2009. This consists of $244.6M for the regulated hydro electric facilities and $784.6M for the nuclear facilities over the test period. OPG has highlighted a number of key drivers of this revenue deficiency, including capital structure and return on equity ("ROE"), nuclear liabilities and various operating cost increases.

(a) Please produce a spreadsheet which shows, on a segmented basis, all of the drivers of the revenue deficiency for both the regulated hydro electric facilities and for the nuclear facilities. In order to assist with the general format of this spreadsheet, we attach as an example, a spreadsheet entitled "2007 Test Year - Drivers of Sufficiency/(Deficiency)" that was prepared by Enbridge Gas Distribution Inc. ("EGD") in EB-2006-0034.

2. Reference: Business Planning and Budgeting Process, Ex.A2, T2, S1

Issue Nos.: 3.1, 3.2, 3.5, 5.1 and 5.3

Issues:

3.1 Are the costs and financial commitments OPG is seeking to recover under section 6(2)4 incurred to increase the output of, refurbish or add operating capacity to a prescribed facility?

3.2 If so, are the costs and financial commitments within project budgets approved for that purpose by the Board of Directors of OPG?

3.5 Is the additional capital spending (beyond the levels being recovered under section 6(2)4) appropriate?

5.1 Are the Operation, Maintenance and Administration ("OM&A") budgets for the prescribed hydroelectric and nuclear business appropriate?

5.3 Are the 2008 and 2009 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

At Ex.A2, Tab 2, Schedule 1, OPG presents an overview of its business planning and budgeting process. This process applies to Revenues and all expenditures, including capital, operating, and provision-funded expenditures. OPG states that it established "a consistent framework of corporate strategic objectives, resource guidelines and costing assumptions" and that the "key elements of this planning framework are identified to the business units through business planning instructions provided by the Financial Planning Dept. in Corporate Finance". With respect to this business planning and budgeting process for the fiscal years 2008-2009:

(a) Please produce the "corporate strategic objectives, resource guidelines and costing assumptions" referred to at Ex.A2, Tab 2, Schedule 1 page 1 of 13.

(b) Please produce the planning instructions provided by the Financial Planning Dept. to the business units.

(c) Please produce the preliminary business plans and final business plans (if different) prepared by the business units.

(d) Please provide the consolidated financial outlook prepared by Corporate Finance.

(e) Please produce the overviews of the consolidated preliminary results prepared by Financial Planning. If not provided in the overviews, please identify material changes made in the financial outlook and the underlying drivers.

(f) Please produce reports or power point presentations addressing the business planning and budget process presented to OPG's President, CEO and/or senior management. If subsequent to those reports or presentations any material modifications were made by, or on the basis of input received from, OPG's President, CEO and/or senior management, please provide a description of the modifications and produce the revised business unit plans.

(g) Please produce the draft consolidated business plan (that was based on updated November submissions) that was reviewed by OPG senior management and shareholder representatives.

(h) If material changes were subsequently made to the finalized consolidated business plan submitted to the OPG Board of Directors, please describe those changes and provide a copy of the finalized consolidated business plan.

3. Reference: **Proposed Changes to the Capital Structure and Return on Equity ("ROE") Ex.C1, T1, S1**

Issue Nos.: **2.1 and 2.2**

Issues:

2.1 What is the appropriate capital structure for OPG's regulated business for the 2008 and 2009 test years? Should the same capital structure be used for both OPG's regulated hydroelectric and nuclear businesses? If not, what capital structure is appropriate for each business?

2.2 What is the appropriate return on equity (ROE) for OPG's regulated business for the 2008 and 2009 test years? Should the ROE be the same for both OPG's regulated hydroelectric and nuclear businesses? If not, what is the appropriate ROE for each business?

OPG has confirmed that for the 2005 to 2007 fiscal years, it has operated under the auspices of the capital structure (45% equity and 55% debt) that was reflected in information provided by OPG to the province for use in setting the interim period payment amounts. For that same period, CME understands that OPG has operated under the auspices of a 5% ROE based upon public pronouncements by the Province.

(a) What is OPG's understanding of the rationale on which its shareholder relied to establish the ROE of 5% and the capital structure of 45% equity and 55% debt?

(b) Please list and produce all documents, including electronic communications and power point presentations in OPG's possession, relating to the determination by its shareholder of the 5% ROE and the capital structure of 45% equity and 55% debt.

(c) Please list and describe each of the criteria which were considered by OPG's shareholder in determining that a 5% ROE and a capital structure of 45% equity and 55% debt were reasonable.

4. Reference: **Proposed Changes to the Capital Structure and Return on Equity ("ROE") Ex.C1, T1, S1**

Issue Nos.: **2.1 and 2.2**

Issues:

2.1 What is the appropriate capital structure for OPG's regulated business for the 2008 and 2009 test years? Should the same capital structure be used for both OPG's regulated hydroelectric and nuclear businesses? If not, what capital structure is appropriate for each business?

2.2 What is the appropriate return on equity (ROE) for OPG's regulated business for the 2008 and 2009 test years? Should the ROE be the same for both OPG's regulated hydroelectric and nuclear businesses? If not, what is the appropriate ROE for each business?

For the fiscal years 2005 to 2007, OPG has operated under the auspices of a capital structure comprised of 45% common equity and 55% debt, with a ROE of 5%. For the 2008 and 2009 fiscal years, OPG proposes a capital structure comprised of 57.5% common equity and 42.5% debt, with a ROE of 10.5%.

(a) To what extent will the revenue deficiency for OPG's prescribed facilities for the 21 month test period starting April 1, 2008, to December 31, 2009, reduce if the capital structure is maintained at 45% equity and 55% debt? Please provide the resulting revenue deficiency reduction for the regulated hydroelectric business segment and the regulated nuclear business segment separately.

(b) To what extent will the revenue deficiency for OPG's prescribed facilities for the 21 month test period starting April 1, 2008, to December 31, 2009, reduce if the ROE claimed by OPG of 10.5%

is reduced to 5%? Please provide the resulting revenue deficiency reduction for the regulated hydroelectric business segment and the regulated nuclear business segment separately.

(c) Please show the extent to which revenue the deficiency will change with every 100 basis points of ROE above or below 5%. Please provide the resulting revenue deficiency reduction for the regulated hydroelectric business segment and the regulated nuclear business segment separately.

(d) To what extent will the revenue deficiency for OPG's prescribed facilities for the 21 month test period starting April 1, 2008, to December 31, 2009, reduce if the capital structure is maintained at 45% equity and 55% debt and the ROE is maintained at 5%? Please provide the resulting revenue deficiency reduction for the regulated hydroelectric business segment and the regulated nuclear business segment.

5. Reference: Niagara Tunnel Project, Ex.D1, T1, S1, page 3 of 10

Issue No.: 3.1

Issue: 3.1 Are the costs and financial commitments OPG is seeking to recover under section 6(2)4 incurred to increase the output of, refurbish or add operating capacity to a prescribed facility?

OPG's 2007 Actual Capital Expenditure was $84.3M versus the 2007 Budget of $229.4M. The reason for this discrepancy relates to delay experienced with the Niagara Tunnel Project which was $144.6M under budget in 2007.

(a) Please produce all reports, updates or memoranda presented to OPG's President, CEO, Board of Directors and/or senior management, by OPG staff or consultants, including PowerPoint presentations, that address delays with the Niagara Tunnel Project and/or the under spending of the 2007 budget.

(b) Please produce all communications from OPG's President, CEO, Board of Directors and/or senior management to OPG staff with respect to the 2007 Actual Capital Expenditure of $84.3M versus the 2007 Budget of $229.4M.

2007 Test Year - Drivers of Sufficiency / (Deficiency)

Line No.	Column Number ---> / Column Equations --->	1 F2006 Board Apprv'd. Adj'd. Decis. & Jan. 1, 06 Rates (Note 1) ($Millions)	2 Change in Volumes & Storage ($Millions)	3 Debt Levels, Interest Rates & Formula ROE @ 8.74% ($Millions)	4 Change in Equity Level to 38% ($Millions)	5 Increase in O&M Expense ($Millions)	6 Impact of Depreciation Study Rates ($Millions)	7 = Col's 1 to 6 Sub-Total (carried forward to next page) ($Millions)
1.	Rate base	3,863.5	(256.0)	-	-	1.9	(12.1)	3,597.3
2.	Required rate of return	7.74%	0.02 %	(0.03)%	0.14%	(0.01)%	0.00 %	7.86%
3.	Cost of capital	299.0	(19.1)	(1.0)	5.0	(0.2)	(0.6)	283.1
4.	Gas costs	2,777.3	(600.7)	-	-	-	-	2,176.6
5.	Operation and maintenance	316.7	-	-	-	47.5	-	364.2
6.	Transition costs customer care	-	-	-	-	-	-	-
7.	Depreciation and amortization	206.6	-	-	-	-	24.8	231.4
8.	Fixed Financing Expense	1.4	-	-	-	-	-	1.4
9.	Notional utility account recovery	12.3	-	-	-	-	-	12.3
10.	Municipal and other taxes	53.0	-	-	-	-	-	53.0
11.	Cost of service	3,367.3	(600.7)	-	-	47.5	24.8	2,838.9
12.	Other operating revenue	(27.3)	-	-	-	-	-	(27.3)
13.	Interest and Property Rental Income	-	-	-	-	-	-	-
14.	Other income	(0.3)	-	-	-	-	-	(0.3)
15.	Misc. Operating & Non-Op. Inc.	(27.6)	-	-	-	-	-	(27.6)
16.	Income taxes excluding tax shield	141.0	(16.7)	-	-	(17.1)	-	107.2
17.	Tax shield provided by interest exp.	(61.4)	4.0	0.4	1.5	0.1	-	(55.4)
18.	Income taxes on earnings	79.6	(12.7)	0.4	1.5	(17.0)	-	51.8
19.	Gross sufficiency / (deficiency)	-	(22.2)	1.1	(10.2)	(47.4)	(38.1)	(116.8)
20.	Net sufficiency / (deficiency)	-	(14.2)	0.7	(6.5)	(30.3)	(24.3)	(74.6)
21.	Income taxes on suff. / (def.)	-	8.0	(0.4)	3.7	17.1	13.8	42.2
22.	Revenue requirement	3,718.3	(624.5)	(1.0)	10.2	47.4	38.0	3,188.4
23.	Gas sales	2,920.1	(571.2)	-	-	-	-	2,348.9
24.	Transportation service	796.1	(75.2)	-	-	-	-	720.9
25.	Transmission, comp'n & storage	2.1	(0.2)	-	-	-	-	1.9
26.	Rounding adjustment	-	(0.1)	0.1	-	-	(0.1)	(0.1)
27.	Revenue at existing Rates	3,718.3	(646.7)	0.1	-	-	(0.1)	3,071.6
28.	Gross revenue sufficiency / (deficiency)	-	(22.2)	1.1	(10.2)	(47.4)	(38.1)	(116.8)

Note 1: Includes approved 2006 gross deficiency of $17.8 million in revenue at existing rates and approved taxes of $6.2 million on the gross deficiency within income taxes on earnings.

2007 Test Year - Drivers of Sufficiency / (Deficiency)

Line No.	Column Number ---> / Column Equations --->	7	8	9	10	11	12	13 = Col's 7 to 12
		Sub-Total (carried forward from prev. page) ($Millions)	Transition Costs Customer Care ($Millions)	Notional Utility Account Recovery ($Millions)	Updated Asset sharing ($Millions)	Federal Capital Tax Elimination & Resulting Surtax % ($Millions)	All Other: Capital Exp., Depr., Mun. tax, Inc. tax Cap. tax, etc. ($Millions)	Total Revenue Requirement ($Millions)
1.	Rate base	3,597.3	-	-	(2.9)	-	206.9	3,801.3
2.	Required rate of return	7.86%	0.00%	0.00%	0.00 %	0.00 %	(0.10)%	7.76%
3.	**Cost of capital**	283.1	-	-	(0.2)	-	12.1	295.0 /c
4.	Gas costs	2,176.6	-	-	-	-	-	2,176.6
5.	Operation and maintenance	364.2	-	-	-	-	-	364.2
6.	Operation and maintenance	-	10.0	-	-	-	-	10.0
6.	Depreciation and amortization	231.4	-	-	-	-	23.2	254.6
7.	Fixed Financing Expense	1.4	-	-	-	-	(0.1)	1.3
8.	Notional utility account recovery	12.3	-	(3.1)	-	-	-	9.2
9.	Municipal and other taxes	53.0			-	(5.2)	(0.2)	47.6
10.	**Cost of service**	2,838.9	10.0	(3.1)	-	(5.2)	22.9	2,863.5
11.	Other operating revenue	(27.3)	-	-	-	-	0.1	(27.2)
12.	Interest and Property Rental Income	-	-	-	-	-	-	-
13.	Other income	(0.3)	-	-	-	-	0.1	(0.2)
14.	**Misc. Operating & Non-Op. Inc.**	(27.6)	-	-	-	-	0.2	(27.4)
15.	Income taxes excluding tax shield	107.2	(3.5)	1.1	-	4.5	(2.4)	106.9
16.	Tax shield provided by interest exp.	(55.4)	-	-	0.1	(2.0)	(1.9)	(59.2)
17.	**Income taxes on earnings**	51.8	(3.5)	1.1	0.1	2.5	(4.3)	47.7
18.	Gross sufficiency / (deficiency)	(116.8)	(10.2)	3.1	0.4	4.2	(48.5)	(167.8)
19.	Net sufficiency / (deficiency)	(74.6)	(6.5)	2.0	0.2	2.7	(31.0)	(107.2)
20.	**Income taxes on suff. / (def.)**	42.2	3.7	(1.1)	(0.2)	(1.5)	17.5	60.6
21.	**Revenue requirement**	3,188.4	10.2	(3.1)	(0.3)	(4.2)	48.4	3,239.4
22.	Gas sales	2,348.9	-	-	-	-	-	2,348.9
23.	Transportation service	720.9	-	-	-	-	-	720.9
24.	Transmission, comp'n & storage	1.9	-	-	-	-	-	1.9
25.	Rounding adjustment	(0.1)	-	(0.1)	0.1	-	(0.1)	(0.1)
26.	**Revenue at existing Rates**	3,071.6	-	(0.1)	0.1	-	(0.1)	3,071.6
27.	**Gross revenue sufficiency / (deficiency)**	(116.8)	(10.2)	3.0	0.4	4.2	(48.5)	(167.8)