COST OF SHORT-TERM DEBT

1.0 PURPOSE
This evidence provides the details of OPG’s annual short-term borrowing and associated costs for 2005 - 2009 determined pursuant to the methodology discussed in Ex. C1-T1-S3.

2.0 DESCRIPTION OF SHORT-TERM DEBT
OPG uses its commercial paper program and accounts receivable securitization program as its two main sources of short-term financing; however it also maintains a bank credit facility as the primary backstop to its commercial paper program. The bank credit facility provides protection to investors by allowing OPG to borrow by way of bankers’ acceptances in the event OPG is unable to re-issue its commercial paper in the market place. The bank facility is $1B in size, comprised of a $500M 364-day tranche and a $500M five-year tranche. The facility has a current annual cost of $1.3M which is forecast to increase to $1.4M in 2008 and 2009 in response to OPG’s request to reduce certain reporting requirements and to extend the term of the 364-day $500M tranche by one year.

OPG’s commercial paper program is supported by the bank credit facility discussed above and is used to fund intra-month borrowing requirements. OPG did not use the commercial paper program extensively in 2005 or 2006, for the following reasons:

- In 2005 OPG was a net short-term borrower of commercial paper until April at which point OPG became an investor of cash for the remainder of the year. The interest cost on borrowed funds averaged 2.53 percent and totaled $445,000.

- In 2006 OPG was a net investor of cash until late December when it borrowed $15M as a bridge until OPG received its monthly revenue payment from the IESO in mid-January. The commercial paper borrowing rate at that time was 4.25 percent. OPG borrowed the $15M as its revenues for December 2006 were significantly less than forecast and OPG was required to retire certain OEFC borrowings (issue numbers 5 and 6, as shown in Ex. C1-T2-S2 Table 2).
OPG was able to fund intra-month working capital requirements during this period primarily as a result of a change in the market structure in 2005 and the timing of rebate payments as prescribed by regulation. OPG has used its commercial paper financing more extensively in 2007 to fund intra-month working capital requirements, and expects to continue to use this source of financing in 2008 and 2009. OPG borrowed an average of $30.9M on a daily basis in 2007 and will continue to make greater use of this program in 2008 and 2009. OPG forecasts that an average of $60M on a daily basis is required for a period of 20 days each month ($43M based on the average number of days each month) to finance OPG’s normalized intra-month working capital requirements in both 2008 and 2009.

OPG’s other primary source of short-term financing is its accounts receivable securitization program with the Royal Bank of Canada, under which it sold $300M of receivables in each of 2005, 2006 and 2007. The $300M is a portion of the month-end accounts receivable balance owing to OPG from the IESO for the prior month (OPG’s month-end accounts receivable balances has ranged from $380M to $780M during this period). The accounts receivable securitization balance of $300M rolls over on a monthly basis and is supported by the amount of the IESO monthly payment. By selling its receivables, OPG is in essence borrowing money in advance of the monthly receipt from the IESO and the interest is the cost of that borrowed money. The accounts receivable securitization program is in effect until 2009; however OPG expects to continue the program after 2009. OPG’s forecast reflects continued borrowing of $300M under this program throughout the test periods. Under the program OPG continues to service the receivables and pays a short-term cost of funds on a monthly basis to an independent trust.

3.0 SHORT-TERM DEBT COST
The pricing under the bank credit facility is market-based, and subject to the amount drawn and the term of the financing. If the facility is drawn in excess of 50 percent of the total amount ($1B), the rate added to the bankers’ acceptance rate is 55 basis points (0.55 percent) otherwise the rate is 50 basis points. The cost of this borrowing (50 to 55 basis points above the bankers’ acceptances rate) is more expensive than either OPG’s commercial paper or securitization program. OPG did not borrow funds using this facility in
either 2005, 2006 or 2007 and has not forecast specific borrowing under this facility in 2008 or 2009. The annual cost of maintaining the bank credit facility is currently $1.3M, which is forecast to increase to $1.4M in 2008 and 2009 to reflect changes in the bank facility discussed previously, and is included with OPG’s commercial paper program costs, as the bank credit facility is required to support OPG’s commercial paper program.

The fee associated with the accounts receivable securitization program is 0.3375 percent, which is added to the bankers’ acceptances rate for OPG. The total rate is applied to the outstanding balance of the securitized funds on a daily basis. For 2005 the cost of the accounts receivable securitization program (inclusive of the program fee) was $9.1M or 3.02 percent, in 2006 the cost was $13.1M or 4.38 percent and in 2007 the cost was $14.9M or 4.98 percent. Although the accounts receivable securitization program is slightly more expensive than OPG’s commercial paper program, it represents an alternative form of financing, and a more permanent component of OPG’s short-term debt which does not fluctuate month to month. The pricing uncertainty in the asset-backed commercial paper market in Canada since the August 2007 liquidity crisis has increased the borrowing costs of the independent trust. The cost of borrowing over the bankers’ acceptances rate has increased from nil to 50 basis points in 2007. The spread over the bankers’ acceptance rate is forecast to be 20 basis points for 2008. For 2009, a spread of 10 basis points has been used to reflect a return to more normal business conditions.

OPG’s borrowing rate under the commercial paper program is market-based, comprised of a ten basis point dealer fee and a corporate spread over the bankers’ acceptances rate for OPG. There has been significant credit tightening since August 2007 causing short-term borrowing cost on bankers’ acceptances to soar above the yield on treasury securities. The indicative corporate spread on OPG’s short-term borrowings increased from 3 basis points to 20 basis points in the latter part of 2007, and is currently around 10 basis points. OPG’s forecast is based on the current corporate spread of 10 basis points in 2008 and 5 basis points in 2009 reflecting a return to more normal business conditions.
OPG has used the Global Insight forecast for December 2007 as the basis for the bankers’ acceptances interest rate forecast after adjusting for the spread differential between bankers’ acceptances and the yield on treasury securities. For 2008 the bankers’ acceptances rate used is 4.9275 percent and for 2009 it is 5.17 percent.

Ex. C1-T2-S3 Table 1 summarizes OPG’s forecast company-wide cost of short-term debt.

4.0 ALLOCATION TO REGULATED OPERATIONS

OPG’s allocation methodology for determining the regulated portion of its short-term debt is described in Ex. C1-T1-S3. The rates of 55.5 percent (2005), 55.2 percent (2006) and 57.1 percent (for 2007 - 2009) have been applied to the short-term debt costs determined above and are reflected in the capitalization and cost of capital evidence provided in Ex. C1-T2-S1 Tables 2 - 6.