Technical Conference Questions

Board Staff  Follow-up Questions on OPG Responses to Interrogatories

Number 2

In regard to L-T1-S4 (Board Staff IR#4), Ms. McShane confirmed the utilities listed in Schedule 28 were used to establish a premium of 1.5%. Is it correct to interpret that to mean that absent the adjustment for the U.S. utilities in Schedule 28, the recommended ROE would have been 9% (10.5% minus 1.5%)?

Response

No. Ms. McShane’s approach established the benchmark ROE at 10.5% and then established a capital structure that would be consistent with the benchmark ROE. The 1.5% risk premium was used to establish the 57.5% common equity ratio for OPG. Stated differently, the compensation for the higher risk of OPG relative to the benchmark utilities could have been reflected in a 1.5% higher ROE or a higher common equity ratio. Ms. McShane’s approach reflected the differential risk in a higher common equity ratio. If OPG were of approximately similar risk to the benchmark utilities, the recommended ROE would still be 10.5%, but the common equity ratio would have been similar to that of the benchmark utilities, at approximately 45%.