Technical Conference Questions

Board Staff Follow-up Question on OPG Responses to Interrogatories

**Number 5**

With respect to L-T1-S9 (Board Staff IR #9), the response notes “There would be no adjustment, even if the nuclear outage loss were replaced by another OPG owned generation facility. The assessment of the incremental equity risk premium for OPG (translated into an equity ratio) was made using samples of integrated utilities with a relatively high proportion of assets in diversified generation portfolios. The estimates of the incremental risk premium that Ms. McShane made are applicable to companies with diversified generation portfolios and with an ability to replace production from a plant experiencing an outage with production from other generating plants.” How many of the vertically integrated utilities in Ms. McShane’s sample account for over 70% of the generation in the jurisdiction that they operate in (similar to OPG)? In addition, how many of those utilities have a portion of their generation portfolio regulated and a portion unregulated?

**Response**

With respect to the first part of the question, Ms. McShane has not broken down the information for each company to the level of detail required to respond to the question. To do so would require a significant amount of additional analysis, as many of these companies operate in multiple jurisdictions. Some of their jurisdictions are restructured and some are not (i.e., generation is regulated as part of the “bundled” utility). To provide some perspective, of the 21 companies in the sample, fourteen have the majority of their utility operations in states that are not restructured. In those states, the operating utility accounts for the majority of the generation produced and delivered, but most also purchase some power either from other utilities or from non-regulated generators. For some of these utilities, it is relatively simple to determine what proportion of the total generation they account in their franchise areas. For example, Great Plains Energy produces 97% of the electricity delivered in its two jurisdictions, neither of which are restructured, and purchases the remaining 3%. Others are more complex. For example, Ameren operates in two states, Missouri and Illinois. In Missouri, AmerenUE, which accounts for approximately 49% of Ameren’s total assets, generates virtually all of the power delivered to customers in that jurisdiction. In Illinois, which is restructured, Ameren’s three “wires” electric utility subsidiaries, which account for approximately 32% of total Ameren assets, purchase all their power. Their formerly regulated generating plants were transferred to an unregulated subsidiary which, until the end of 2006, supplied their “wires” affiliates’ load under long-term contract; as of 2007, the wires utilities are obtaining their supply via auction, a portion of which is from their affiliates. The overall risks of Ameren thus reflect the combination of a fully regulated “bundled utility” (transmission, distribution and generation), wires-only utilities, and unregulated generation.
None of the utilities in the sample of “high generation” utilities is identical to OPG, precisely because OPG is unique. In the composite, however, they provide a reasonable point of departure for quantifying the incremental risk compensation that is required to recognize the higher risks of regulated generation as compared to the largely wires operations of the benchmark utilities.

With respect to the second part of the question, of the 21, nine have no unregulated generation, two have no regulated generation and the remaining companies have a mix of regulated and unregulated generation. All have a significant component of regulated wires operations.