
OPG'S PRESCRIBED ASSETS FINANCIAL OVERVIEW

Briefing – Participants in OEB Consultation

May 19, 2006

Agenda

- Basis for Interim Rates under O. Reg 53/05
- Cost of Capital
- Rate Base
- Revenue Requirement
- Regulatory Construct Considerations

Interim Rates under O. Reg 53/05

- Financial information used in the development of interim rates based on business planning information developed Q3 2004.
- Revenue requirement and rate base forecast reviewed by Ministries of Energy and Finance plus Provincial advisors – CIBC World Markets.
- Regulatory treatment of some costs/issues based on OEB precedents – e.g. pension/OPEB, PILs, AFUDC, capital structure and rate base methodology.
- Deferral of non-capital costs of Pickering A Return to Service required in O. Reg. 53/05. Added to rate base when construction complete.
- Long term cost of nuclear waste management and decommissioning included in fixed assets values per GAAP.
- Incremental cost of managing annual used fuel and nuclear waste included in fuel and depreciation.
- Assets, liabilities and costs were allocated between regulated and unregulated operations.
 - 97% of fixed assets (by value), 87% of OM&A costs are directly supporting the specific production facilities
 - Various allocation bases were developed for the remaining costs, liabilities and assets

Interim Rates -- Cost of Capital

Capital structure

- Deemed structure set to 55% debt and 45% equity

Debt

- Existing OPG debt - ~60% allocated to regulated assets
- Interest Rate for existing debt – actual ~ 6%
- Interest Rate on remaining deemed debt - based on OPG's incremental cost for debt - 6%, estimated

Equity

- Notional 5% ROE set by the Province – as indicated in public statements at the time

Rate Base and Capitalization

Rate Base = Average Net Book Value of Fixed Assets + Regulatory Assets + Working Capital

Fixed Assets

- **97 %** - Station specific depreciable assets
 - Pickering A&B, Darlington, Niagara plants, Saunders
 - Nuclear Technology-specific assets (e.g. heavy water, nuclear training centres.)
 - Regulatory asset associated with Pickering A Return to Service
- **3 %** - Centrally Held Assets
 - Assets specifically related to regulated assets (nuclear-specific IT)
 - Allocation of certain remaining assets shared by all stations (e.g. payroll system).

Working Capital

- Fuel and Materials in inventory based on historical levels. Facilities are predominantly base load; therefore fuel and inventory levels are forecast to be stable during interim period.
- Cash Working Capital based on a daily cash flow forecast for 2005

(\$ Millions)	Opening 2005	Year-End 2005	Year-End 2006	Year-End 2007
Prescribed Assets				
Nuclear				
Net Fixed Assets	2,377	2,588	2,446	2,799
Regulatory Asset (PARTS)		219	197	691
Working Capital	475	475	475	475
Total Nuclear	2,852	3,282	3,118	3,965
Average Nuclear Rate Base		2,988	3,200	3,712
Hydroelectric - Baseload				
Net Fixed Assets	3,936	3,894	3,841	3,791
Working Capital	100	100	100	100
Total Hydroelectric	4,036	3,994	3,941	3,891
Average Regulated Hydroelectric Rate Base		4,015	3,967	3,916
Total Prescribed Assets	6,888	7,276	7,059	7,856
Deemed Capitalization				
Debt	55%	3,788	4,001	3,882
Equity	45%	3,100	3,275	3,536
Total Debt + Equity	100%	6,888	7,276	7,856

Forward looking information used in the development of the interim rates was based on planning information developed late in 2004 and should not be used for any other purpose.

Forecast Information for Facilities Prescribed under O. Reg 53/05

	Nuclear			Regulated Hydroelectric		
	2005	2006	2007	2005	2006	2007
Average Rate Base (\$M)	2,988	3,200	3,712	4,015	3,967	3,916
Energy Generated - TWh	45.2	50.6	53.0	18.0	18.4	18.7
Costs (\$M)						
Fuel /GRC Costs	100	112	128	236	243	249
Station Service Charges	11	11	11	5	5	5
OM&A	1,769	1,805	1,889	76	81	82
Property Tax	22	28	29	0	0	0
Capital Tax	19	22	24	11	11	12
Depreciation	292	343	467	65	65	66
Interest	99	107	123	132	134	131
Current Income Taxes	8	9	11	10	11	11
Large Corporate Tax	13	12	8	7	6	3
Return on Equity at 10%	134	144	167	181	179	176
Required Revenues (\$M)	2,466	2,593	2,857	723	734	735
Less:						
Bruce Lease - Revenues less Costs	85	96	117			
Revenues From:						
Ancillary Services	2	3	3	38	40	41
Other Services	21	23	23			
Net Revenue Requirement (\$M)	2,358	2,472	2,714	685	694	694
Forecast Interim Rate at 10% ROE (\$/MWh)	52.2	48.9	51.2	38.1	37.7	37.1

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Regulatory Construct Considerations

- All energy rate vs split capacity/energy rates
- Incentive mechanisms
- Major project budget pre-approvals
- Deemed capital structure
- Appropriate return on equity
- Variance Accounts to deal with uncertainties
 - Nuclear technology performance & CNSC regulatory requirements
 - Water availability