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2 **Technical Conference Questions**
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4 **Board Staff Follow-up Questions on OPG Responses to Interrogatories**
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6 **Number 2**
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8 In regard to L-T1-S4 (Board Staff IR#4), Ms. McShane confirmed the utilities listed in
9 Schedule 28 were used to establish a premium of 1.5%. Is it correct to interpret that to
10 mean that absent the adjustment for the U.S. utilities in Schedule 28, the recommended
11 ROE would have been 9% (10.5% minus 1.5%)?
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14 **Response**
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16 No. Ms. McShane's approach established the benchmark ROE at 10.5% and then
17 established a capital structure that would be consistent with the benchmark ROE. The
18 1.5% risk premium was used to establish the 57.5% common equity ratio for OPG.
19 Stated differently, the compensation for the higher risk of OPG relative to the benchmark
20 utilities could have been reflected in a 1.5% higher ROE or a higher common equity
21 ratio. Ms. McShane's approach reflected the differential risk in a higher common equity
22 ratio. If OPG were of approximately similar risk to the benchmark utilities, the
23 recommended ROE would still be 10.5%, but the common equity ratio would have been
24 similar to that of the benchmark utilities, at approximately 45%.