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2   **<u>Technical Conference Questions</u>**
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4   **<u>Board Staff Follow-up Question on OPG Responses to Interrogatories</u>**
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6   ***<u>Number 5</u>***
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8   With respect to L-T1-S9 (Board Staff IR #9), the response notes "There would be no
9   adjustment, even if the nuclear outage loss were replaced by another OPG owned
10   generation facility. The assessment of the incremental equity risk premium for OPG
11   (translated into an equity ratio) was made using samples of integrated utilities with a
12   relatively high proportion of assets in diversified generation portfolios. The estimates of
13   the incremental risk premium that Ms. McShane made are applicable to companies with
14   diversified generation portfolios and with an ability to replace production from a plant
15   experiencing an outage with production from other generating plants." How many of the
16   vertically integrated utilities in Ms. McShane's sample account for over 70% of the
17   generation in the jurisdiction that they operate in (similar to OPG)? In addition, how
18   many of those utilities have a portion of their generation portfolio regulated and a portion
19   unregulated?
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22   ***<u>Response</u>***
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24   With respect to the first part of the question, Ms. McShane has not broken down the
25   information for each company to the level of detail required to respond to the question.
26   To do so would require a significant amount of additional analysis, as many of these
27   companies operate in multiple jurisdictions. Some of their jurisdictions are restructured
28   and some are not (i.e., generation is regulated as part of the "bundled" utility). To provide
29   some perspective, of the 21 companies in the sample, fourteen have the majority of their
30   utility operations in states that are not restructured. In those states, the operating utility
31   accounts for the majority of the generation produced and delivered, but most also
32   purchase some power either from other utilities or from non-regulated generators. For
33   some of these utilities, it is relatively simple to determine what proportion of the total
34   generation they account in their franchise areas. For example, Great Plains Energy
35   produces 97% of the electricity delivered in its two jurisdictions, neither of which are
36   restructured, and purchases the remaining 3%. Others are more complex. For example,
37   Ameren operates in two states, Missouri and Illinois. In Missouri, AmerenUE, which
38   accounts for approximately 49% of Ameren's total assets, generates virtually all of the
39   power delivered to customers in that jurisdiction. In Illinois, which is restructured,
40   Ameren's three "wires" electric utility subsidiaries, which account for approximately 32%
41   of total Ameren assets, purchase all their power. Their formerly regulated generating
42   plants were transferred to an unregulated subsidiary which, until the end of 2006,
43   supplied their "wires" affiliates' load under long-term contract; as of 2007, the wires
44   utilities are obtaining their supply via auction, a portion of which is from their affiliates.
45   The overall risks of Ameren thus reflect the combination of a fully regulated "bundled
46   utility" (transmission, distribution and generation), wires-only utilities, and unregulated
47   generation.
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1   None of the utilities in the sample of "high generation" utilities is identical to OPG,
2   precisely because OPG is unique. In the composite, however, they provide a reasonable
3   point of departure for quantifying the incremental risk compensation that is required to
4   recognize the higher risks of regulated generation as compared to the largely wires
5   operations of the benchmark utilities.
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7   With respect to the second part of the question, of the 21, nine have no unregulated
8   generation, two have no regulated generation and the remaining companies have a mix
9   of regulated and unregulated generation. All have a significant component of regulated
10   wires operations.
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