

2009 FEES, OPERATING COSTS AND CAPITAL EXPENDITURES

The 2009 Budget was developed to support the strategic objectives detailed in the OPA's 2009 to 2011 Business Plan. This budget results in a proposed usage fee for recovery of its revenue requirement of \$0.448/MWh from Ontario electricity customers in 2009. The total revenue request, which includes recovery of the balances in the OPA's deferral accounts results in a total requested usage fee of \$0.485/MWh. The evidence provided in this exhibit is a detailed explanation of the operating costs by major cost item, the 2009 capital expenditures and the derivation of the proposed usage fee.

Registration Fees

In 2009, the OPA proposes to continue its practice of charging a non-refundable registration fee for participants in OPA procurement processes for electricity supply and capacity, consistent with the practice in many other jurisdictions. The registration fees serve as a valuable tool to focus OPA resources on participants who are committed to the procurement process.

The OPA's currently-approved registration fee is \$10,000 per proposal for electricity supply and capacity competitive procurements. In response to the introduction of the Ontario government's Bill 150 on February 23, 2009, the OPA has begun the process of designing a feed-in-tariff ("FIT") program, which may result in the need for additional registration fees. The need for and the amount of these fees will be established through a transparent consultation process which will involve all interested parties to the program.

The OPA is requesting approval to establish registration fees up to a maximum of \$10,000 per proposal for electricity supply and capacity. This will allow the OPA the flexibility required to set fees with input from affected parties that are appropriate to recover the costs to process applications, while not acting as a barrier to small distributed generation. The detailed fee schedule resulting from the consultation process will be filed in the OPA's 2010 Revenue Requirement submission.

1 The OPA will not charge registration fees for any other procurement processes. Due to the
2 current position of the conservation industry on the maturity curve, any such charges may
3 represent a barrier to entry for OPA's Conservation RFPs.

4 In 2009, total registration fees were originally budgeted at \$0.220 million based on potential
5 procurement projects to be undertaken in 2009. While there is significant uncertainty about
6 the number of applications that may be processed under the FIT program in 2009, given its
7 open-ended nature, the OPA continues to believe that the amount of \$0.220 million is a
8 reasonable estimate. Increases in revenue from the operation of the FIT program will be
9 offset by decreases in revenue, given that the OPA does not anticipate that it will be
10 running a competitive renewable procurement process in 2009 similar to the RES process
11 run in 2008.

12 As in its past submissions, the OPA proposes to utilize the budgeted revenue to reduce
13 operating costs in 2009 and consequently, the OPA's required usage fee. Variances from
14 the budgeted registration fees will be captured in the Forecast Variance Deferral Account
15 for disposition in 2010.

Operating Costs

The operating costs are comprised of an aggregation of the costs of each strategic objective as described in Exhibit B, Tabs 1 to 5. A summary of the costs by the five strategic objectives is provided in Table 1, below.

Table 1				
Operating Costs by Strategic Objective				
2009				
(\$'000)				
		2009 Budget	2008 Budget	Variance
	Strategic Objective 1	5,790	5,631	159
	Strategic Objective 2	20,072	23,186	(3,114)
	Strategic Objective 3	7,732	8,120	(388)
	Strategic Objective 4	1,031	667	364
	Strategic Objective 5	28,948	26,702	2,246
	Contingency Fund	1,500	3,215	(1,715)
	Total	65,073	67,521	(2,448)

In 2009 the OPA has re-classified the operating costs by Strategic Objective, to simplify presentation on an ongoing basis. Overhead costs directly consumed and allocated to the strategic objectives in the 2008 Revenue Requirement Submission are now included in Strategic Objective 5. The 2008 Budget and Forecast amounts contained in the evidence for all strategic objectives presented in Exhibit B have been restated to reflect this change in allocation methodology. Table 2, following, illustrates the difference between the reporting methods.

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Table 2				
Operating Costs by Strategic Objective				
2008				
(\$'000)				
		2008 Budget as filed in EB- 2007-0791	2008 Budget as filed in EB- 2008-0312	Variance
	Strategic Objective 1	10,445	5,631	4,814
	Strategic Objective 2	26,445	23,186	3,259
	Strategic Objective 3	8,364	8,120	244
	Strategic Objective 4	1,252	667	585
	Strategic Objective 5	17,800	26,702	(8,902)
	Contingency Fund	3,215	3,215	0
	Total	67,521	67,521	0

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3 The variance column represents the amount of overhead costs initially allocated to the
4 strategic objectives. The full amount of overhead allocation of (\$8,902) is now included in
5 Strategic Objective 5.

6 The OPA's operating expenses for 2008 and 2009 are provided in Table 3, below, by major
7 expense category.

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Table 3				
Operating Costs by Major Expense Category				
2009 vs. 2008				
(\$'000s)				
	2009 Budget	2008 Budget	Variance	2008 Forecast
Compensation & Benefits	24,664	22,619	2,045	22,837
Professional & Consulting Costs	24,260	28,261	(4,001)	24,684
Conservation / Technology Initiatives	4,061	4,034	27	2,775
Operating & Administration Expenses	10,588	9,392	1,196	9,215
Contingency Fund	1,500	3,215	(1,715)	0
Total Operating Costs	65,073	67,521	(2,448)	59,511

2 The total operating costs budgeted for 2009 are reduced from 2008 to \$65.1 million.
3 Variances within major expense categories are driven by the expanded scope and resultant
4 delay in the IPSP 1 hearing; expanded First Nations and Métis peoples consultation;
5 support for implementation of IPSP 1; the implementation of community outreach
6 programs; the commencement of analysis for IPSP 2; and increased generation and
7 conservation procurements. These increased costs are offset by reductions in the use of
8 temporary workforce and efficiencies gained by experience in design and management of
9 conservation programs. The major variances are detailed below.

10 Compensation and Benefits

11 The 2009 Compensation and Benefits budget of \$24.7 million is 37.9% of the total
12 2009 Budget. The OPA's staffing strategy is discussed in greater detail in Exhibit B-5-1.

13 A breakdown of this expense item by sub-category is as follows in Table 4.

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Table 4					
Compensation and Benefits					
2009 vs. 2008					
(\$'000s)					
	2009 Budget	2008 Budget	Variance	2008 Forecast	
Salaries	20,999	19,078	1,921	19,502	
Pension and Benefits	3,165	3,041	124	2,802	
Board of Directors Remuneration	500	500	0	533	
Total	24,664	22,619	2,045	22,837	

2 Of the total \$24.7 million Compensation and Benefits costs, \$21.0 million (85.0%) is
3 associated directly with salaries. Pension and Benefits of \$3.2 million includes \$1.4 million
4 related to pension expenses; the remainder is payroll taxes and benefit costs.

5 Staffing

6 The OPA takes into consideration the cost effectiveness and efficiency of various staffing
7 arrangements, as discussed in Exhibit B-5-1. The Compensation and Benefits budget
8 includes amounts budgeted for permanent employees, as well as consultants/contractors,
9 temporary and part time employees.

10 The staffing level is measured using Full Time Equivalents ("FTE(s)"). This is to clearly
11 demonstrate the employee support that is budgeted for the entire year. It is calculated per
12 person by dividing the total number of budgeted person-work months by the 12 months in
13 the year. The resource requirements have been established based on the past three-
14 years' experience and preliminary work programs.

15 The FTE levels that underpin the 2009 Compensation and Benefit expenses by strategic
16 objective are as follows in Table 5.

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Table 5							
OPA Full Time Equivalent by Strategic Objective							
2009 vs. 2008							
	2009 Budget			2008 Budget			Variance
	Regular	Temporary	Total FTE	Regular	Temporary	Total FTE	
Strategic Objective 1	29.5	4.7	34.2	21.4	7.3	28.7	5.5
Strategic Objective 2	62.5	0.6	63.1	64.2	6.0	70.2	-7.1
Strategic Objective 3	25.0	2.0	27.0	22.0	2.7	24.7	2.3
Strategic Objective 4	4.2	0.0	4.2	3.0	1.0	4.0	0.2
Strategic Objective 5	61.2	4.0	65.2	50.8	6.0	56.8	8.4
- CEO Office	3.0	0.0	3.0	2.7	0.0	2.7	0.3
- Legal & Regulatory Services	11.0	1.0	12.0	10.0	0.8	10.8	1.2
- Communications	8.9	3.0	11.9	6.5	2.2	8.7	3.2
- Finance	13.7	0.0	13.7	12.0	1.3	13.3	0.4
- Human Resources	4.6	0.0	4.6	3.6	0.0	3.6	1.0
- Business Services	20.0	0.0	20.0	16.0	1.7	17.7	2.3
Total OPA Headcount	182.4	11.3	193.7	161.4	23.0	184.4	9.3

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3 The total 9.3 FTE variance between the 2008 and 2009 Budgets is driven by an increase in
4 regular FTEs (+21.0) offset by a decrease in temporary FTEs (-11.7). As part of the talent
5 management process described in Exhibit B-5-1, the OPA selectively hires regular staff in
6 order to attract and retain valuable resources. The increase in FTEs is primarily due to
7 strengthening the administrative support for the OPA and expanding community
8 engagement. Further increases stem from the expansion of IPSP-related activities and
9 increased generation procurement. Detailed analysis of the total FTE increase by strategic
10 objective is provided in Table 6, below.

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Table 6 Staff Change 2009 vs. 2008		
Strategic Objective	Staff Change (FTE)	Explanation
Planning	+5.5	<ul style="list-style-type: none"> Increase driven by regional and constrained areas planning, commence analysis required for IPSP2
Conservation	-7.1	<ul style="list-style-type: none"> Coordinator (+0.3) added in CECO to support MECO (Municipal Energy Conservation Officer) and to co-ordinate measures for electricity conservation and load management in Ontario Efficiencies gained in program management and EMV process, planned reduction in student hires (-7.4)
Electricity Resources	+2.3	<ul style="list-style-type: none"> Planned additional 371+ standard offer contracts plus additional generation procurement contracts driven by the IPSP and ministerial directives (+1.0). In Contract Management (+1.3) to support larger number of contracts
Sector Development	+0.2	<ul style="list-style-type: none"> Added resources to manage communications and coordination with other stakeholders, market participants and other opinion leaders to create a common understanding of sector needs
Corporate Support	+8.4	<ul style="list-style-type: none"> Increased legal support for procurement activities; support for IPSP implementation and regulatory consultation proceedings (+1.2) Communications will target regional and constrained areas, First Nations and Métis peoples (+3.2) +4.0 to enhance business process and internal control in Finance, Human Resources, Business Services and CEO
Total	+9.3	

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Professional and Consulting Costs

A breakdown of Professional and Consulting costs is provided in Table 7.

Table 7				
Professional and Consulting Costs				
2009 vs. 2008				
(\$'000s)				
	2009 Budget	2008 Budget	Variance	
Audit	644	1,199	(555)	
Legal	4,524	7,430	(2,906)	
Stakeholder Consultation	4,152	2,881	1,271	
Other Professional Consulting	14,940	16,751	(1,811)	
Total	24,260	28,261	(4,001)	

The OPA is required under accounting standards and the Electricity Act to conduct audits of its financial statements, retailer settlements and the Regulated Price Plan ("RPP") account, as well as other internal control audits. The variance from 2008 results from a change in practice of budgeting for internal audits for Conservation programs. With increased experience, the OPA is able to target two specific programs for independent audits, rather than assigning a general budget amount

The Legal costs include specialized external legal support required for conservation initiatives, corporate and commercial matters, regulatory proceedings, electricity generation procurements and contract management. The decrease from the 2008 Budget is driven by a decrease for IPSP 1 to reflect the fact that much of this spending will have occurred in 2008, and reduced reliance on external legal support for Conservation and electricity resource contract management activities.

Intervenor funding of \$3.0 million for the IPSP 1 hearing represents 71.4% of the total 2009 stakeholder consultation cost. The remaining increase in stakeholder costs is for expanded municipal and community outreach, engagement with key community leaders

and First Nations and Métis peoples, and for coordinating and reporting on conservation initiatives.

Other Professional Consulting shows an overall decrease from the 2008 Budget. Increases from the need to complete studies to eliminate barriers to DG; enhanced First Nations and Métis peoples consultation; and building systems and implementing policies for attracting, retaining and engaging skilled staff are offset by a reduction in conservation consulting as a result of efficiencies gained in design and delivery of conservation programs.

A summary of the Professional and Consulting costs by strategic objective is shown in Table 8, below.

Table 8					
Professional and Consulting Costs by Strategic Objective					
2009 vs. 2008					
(\$'000s)					
		2009 Budget	2008 Budget	Variance	2008 Forecast
	Strategic Objective 1	1,458	1,994	(536)	1,694
	Strategic Objective 2	7,533	9,931	(2,398)	8,348
	Strategic Objective 3	4,205	4,717	(512)	4,254
	Strategic Objective 4	360	159	201	159
	Strategic Objective 5	10,704	11,460	(756)	10,229
	Total	24,260	28,261	(4,001)	24,684

Conservation and Technology Development Funds

Consistent with the Board's Decision in EB-2006-0233, the OPA budgets for and seeks recovery through fees of the forecast spending in these two funds in a given year, rather than the fund amounts approved by the OPA Board of Directors, which are established by internally restricting the amounts in net assets.

The budget for spending is \$2.8 million in 2009 for the Conservation Fund and \$1.3 million for the Technology Development Fund. The total spending budgeted for 2009 equals \$4.1 million and represents the sum of the 2009 spending estimates for milestone payments related to grants awarded in 2006, 2007, 2008 and anticipated 2009 grants, as illustrated in Table 9, below.

Table 9						
Conservation / Technology Initiatives						
Spending in 2009						
(\$'000)						
	Year Grant Awarded	2006	2007	2008	2009	Total
	Conservation Fund		848	1414	519	2,781
	Technology Fund	83	175	1022		1,280
	Total	83	1,023	2,436	519	4,061

The Conservation Fund and the Technology Development Fund are described in detail in Exhibit B-2-1.

Operating & Administration Expenses

Operating & Administration Expenses represent all other costs related to operations support, i.e., premise costs, amortization and other costs (e.g., professional development, recruitment costs, travel costs and information system support costs for licenses, data communication and computer maintenance, etc.). The 2009 Budget for Operating & Administration Expenses is \$10.6 million as shown in Table 10, below.

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Table 10				
Operating & Administration Expense Category				
2009 vs. 2008				
(\$'000s)				
		2009 Budget	2008 Budget	Variance
	Premises	2,982	2,620	362
	Amortization	1,489	1,365	124
	Other Costs	6,117	5,407	710
Total Operating & Administration Expenses		10,588	9,392	1,196

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3 Premise costs capture the office rent, premise repairs and maintenance, housekeeping
4 services, and security. Premises costs are higher in 2009 by \$362,000 which is related to
5 an increase in office rental costs due to the requirement for additional office space.

6 Amortization in 2009 reflects the increased asset levels that are required to support the
7 increased scope of responsibilities and the higher level of activities handled by the OPA.
8 Capital expenditures for 2009 are \$2.9 million, about \$300,000 more than 2008. This
9 increase is a result of the ongoing 2008 expansion project described at Exhibit B-5-1, which
10 includes leasehold improvements, additional furnishings, and adding or upgrading
11 computer hardware and software. Amortization expenses represent 2.3% of the total
12 2009 Budget. Table 11 shows the depreciation rates utilized to develop the amortization
13 expense.

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Table 11	
Depreciation Rates	
Furniture and Equipment	10 years
Leasehold Improvements	Over the length of lease
Computer Hardware and Software	2.5 years
Audio Visual Equipment	10 years
Telephone System	5 years

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3 The category “Other Costs” include information technology expenses, which represent all
4 operating costs related to maintaining and supporting OPA needs with regard to software
5 and licenses, data communications, computer maintenance and computer supplies. It also
6 includes office and administration costs, such as: OPA fees & licenses, meetings & events,
7 office expenses, payroll services, equipment repairs, travel expenses for employees and
8 board members, professional membership fees, professional development, recruitment
9 costs and miscellaneous interest. The cost of these services, \$6.1 million, is 9.4% of the
10 total operating budget in 2009 and reflects a 13.1% increase from 2008. This is a result of
11 increases in OEB assessment fees; meeting and event support to First Nations, Métis
12 peoples and municipal outreach; and a lighting audit to be conducted within the premises.

13 Interest

14 Interest expense and income occurs due to the nature of the OPA’s operations. Revenues
15 are received over the course of the year through the usage fee, and are not directly tied to
16 the timing or amount of the OPA’s capital or operating expenditures. Operational financing
17 is required to address the timing differences between the receipt of revenues and the need
18 to meet spending obligations. In 2009, it is projected that interest revenue from the
19 cumulative surplus of (\$10.3) million at the end of 2008 will be sufficient to offset the
20 interest expense arising from operational financing.

Contingency Fund

Consistent with past practice, the OPA is proposing a \$1.5 million contingency fund in 2009 to address unexpected operating costs, and additional work associated with new Directives or letters of request from the Minister or the OEB. This represents 2.3% of the operating budget, which is a decrease of 53.3% from the 2008 OEB-approved contingency.

The OPA must be able to respond to unforeseen issues which may arise during the year, such as Government Directives. The contingency fund provides the flexibility to handle these unforeseen and unbudgeted events.

Capital Expenditures

As in prior years, the OPA will utilize cash flow from amortization expenses included in the usage fee to fund the 2009 capital expenditures of \$2.9 million. As a result, the revenue requirement does not propose additional funding requirements for the 2009 capital expenditures.

The budget for 2009 capital expenditures is \$2.9 million, as provided in Table 12.

Table 12				
Capital Expenditures				
2007 to 2009				
(\$'000)				
		2009 Budget	2008 Budget	2007 Actual
	Furniture & Equipment	799	627	708
	Leasehold Improvements	1,736	1,401	1,215
	Computers & Operating Software	300	497	494
	Telephone/Audio Visual Equipment	62	28	106
	Total	2,897	2,553	2,523

The spending is required to accommodate the functional needs of the recent and forecast increase in staff complement. Leasehold improvements are affected by the requirement to

refurbish additional space to accommodate the staff increase. Prior leaseholds were developed on open space at a lower cost. Computer cost increases are to purchase and also upgrade personal computer hardware and software.

The 2009 capital expenditures will result in a slight increase in the amortization expense for 2009 in accordance with the depreciation rates set out above.

Usage Fee

The revenue required from the 2009 usage fee is derived from the 2009 operating costs, reduced by the forecast registration fees to be collected in 2009. The revenue requirement of \$64.9 million is then adjusted by the balances of the FVDA, the RCSDA and the GPCDA proposed for recovery. This results in a revenue requirement after deferral account recovery of \$70.2 million as described in Exhibit D-3-3. Table 13, below, shows the derivation of the usage fee.

Table 13	
Ontario Power Authority	
2009 Usage Fee Request	
(\$'000)	
	Budget Amount
Operating Costs	65,073
Registration Income	(220)
2009 Revenue Requirement	64,853
FVDA	(10,312)
2008 RCSDA	14,324
GPCDA	1,341
2009 Revenue Requirement after Deferral Account Recovery	70,206
IESO Energy Forecast (TWh)	144.7
Usage Fee requested (\$/MWh)	\$0.485

- 1 The usage fee is derived by dividing the net operating costs (revenue requirement adjusted
2 for deferral accounts) of \$70.206 million by the Ontario electricity forecast¹ of 148.0 TWh,
3 adjusted for line losses of 3.3 TWh for a net forecast of 144.7 TWh.
- 4 The OPA is proposing to continue to charge a volumetric usage fee to recover the OPA's
5 operating costs and deferral account balances from Ontario electricity consumers, effective
6 January 1, 2009. Like the IESO usage fee, the OPA proposes a wholesale market service
7 charge to customers.

¹ . The energy forecast utilized is from the IESO's 18-month Outlook: An Assessment of the Reliability of the Ontario Electricity System, issued September 23, 2008.