ALLOCATION OF CORPORATE COSTS

1.0 PURPOSE

The purpose of this evidence is to describe the corporate support costs assigned and allocated to the nuclear and the regulated hydroelectric business units, as well as the underpinning cost allocation methodology. This evidence also responds to the OEB's direction in EB-2007-0905 to conduct an independent review of the cost allocation methodology and to consider the OEB's "3-prong test" in that review.

2.0 OVERVIEW

OPG is seeking approval of a revenue requirement for the regulated hydroelectric and nuclear business units that includes the costs assigned and allocated to them from OPG's corporate support groups. The revenue requirement for the regulated hydroelectric business unit includes \$24.8M and \$26.3M of assigned and allocated corporate costs in 2011 and 2012 respectively, as presented in Ex. F3-T1-S1 Table 2. The revenue requirement for the nuclear business unit includes \$249.2M and \$252.3M of assigned and allocated corporate costs in 2011 and 2012 respectively, as presented in Ex. F3-T1-S1 Table 3.

The overall level of corporate support costs allocated to the regulated business units remains stable over the bridge year and test period.

In order to assign corporate support costs to the nuclear and regulated hydroelectric business units, OPG has developed a robust cost allocation methodology. This model was independently reviewed by Black & Veatch Corporation ("Black & Veatch"), and approved during EB-2007-0905. OPG has used essentially the same cost allocation methodology as that approved in EB-2007-0905 to determine the cost allocations reported in this exhibit.

OPG is structured such that certain corporate groups provide services and incur costs in support of the nuclear and regulated hydroelectric business units. Corporate support groups include Business Services and Information Technology ("BS&IT"), Finance, Human Resources, Corporate Affairs, Executive Office, Corporate Secretary, Law, and Corporate Business Development. A description of the corporate groups is provided in section 3.

The budgets for OPG's corporate groups are established through the corporate business planning process as set out in Ex. A2-T2-S1. OPG benchmarks the costs of its largest corporate functions, specifically, Information Technology, Finance and Human Resources, as a tool to support its annual business planning process and to help establish performance targets. The corporate groups that are benchmarked account for approximately 70 per cent of the corporate costs assigned and allocated to the regulated facilities. The results of corporate function benchmarking are provided in section 3.

In OPG's cost allocation methodology (section 4.0), corporate support group costs are either directly assigned or allocated to the regulated business units. For the test period, approximately 53 per cent of the assigned and allocated costs are directly assigned. OPG directly assigns costs that are directly related to a business unit. For example, corporate support employees working at, and solely in support of, a business unit would be directly assigned to that business unit. Allocated costs are those costs that are used by more than one business unit. These costs are allocated based on appropriate cost drivers, which reflect cost causation or benefits received by the business unit. Approximately 68 per cent of OPG's total corporate function costs are assigned or allocated to the regulated operations based on the cost allocation methodology. This proportion represents approximately 13 per cent of total combined OM&A costs of the regulated hydroelectric and nuclear business units.

In the EB-2007-0905 Decision with Reasons (page 60), the OEB directed OPG to undertake an independent evaluation of its corporate cost allocation, including consideration of the OEB's "3-prong test." OPG's corporate cost allocation has been reviewed including compliance with the "3-prong test" by independent cost allocation experts, Black & Veatch. Black & Veatch concluded that the methodology to assign and allocate costs meets best practices and is consistent with cost allocation precedents established by the OEB and that the allocated costs meet the requirements of the OEB's "3-prong test". The Black & Veatch study is presented in Ex. F5-T2-S1.

In addition to considering the allocation methodology for assigning and allocating corporate support costs, Black & Veatch also reviewed and endorsed OPG's methodology for allocating common hydroelectric business unit costs between its regulated and unregulated hydroelectric operations. These costs are described in Ex. F1-T2-S1.

3.0 CORPORATE COSTS – TOTAL OM&A

Exhibit F3-T1-S1 Table 1 summarizes OPG's total corporate support OM&A before direct assignment and allocation to the nuclear and regulated hydroelectric business units. Fluctuations in these costs over the period 2007 - 2012 are discussed below, followed by a description of the services provided by the groups.

Corporate support cost increases over the 2007 - 2010 period are mainly due to increases in costs in the Corporate Centre, Finance, Human Resources and Corporate Affairs, partially offset by a decrease in costs within the Information Technology group. Increases to OM&A costs are due to increases in: controllership to support the nuclear business unit, internal audit programs, leadership development initiatives, OEB costs, and initiatives related to water safety, community and sponsorship advertising as well as economic increases during the period**.** Information Technology cost reductions during the period are achieved through a decrease in the need for new technology as a result of improved demand management, leveraging existing applications, increased standardization and simplification of the information technology environment. Further efficiency gains in Information Technology are planned as a result of process re-engineering and the renegotiation of hardware commodity contracts. Information Technology has also successfully renegotiated the contract with OPG's service provider to obtain substantial year-over-year productivity improvements which are being used to offset normal cost pressures between 2010 and 2012.

Costs during the 2010 - 2012 period remain constant except for an increase in 2012 due to a 53-week fiscal calendar as compared to a 52-week calendar in 2010 and 2011. Economic increases over the 2010 - 2012 period are offset by various cost reduction initiatives in the corporate support groups, consistent with the business planning guidelines as discussed in Ex. A2-T2-S1.

Exhibit F3-T1-S1 Tables 2 and 3 present the corporate support costs allocated to nuclear and regulated hydroelectric over the historical, bridge, and test years.

3.1 Finance

Finance provides strategic advice, services, and support in the areas of controllership, financial services, treasury, insurance, risk services, business and investment planning and internal audit.

Financial Services

Financial Services performs external reporting, accounting, International Financial Reporting Standards ("IFRS") conversion, internal control and compliance, regulatory finance, and financial processing services such as accounts receivable, accounts payable, and fixed assets transactions management.

Risk Services

Risk Services includes operational risk management, market risk management, and credit risk management. The services performed by these groups include: assessing the effectiveness of OPG's network of risk management, control, and governance processes; providing risk management consulting services to the businesses; providing independent assurance that market risk exposures are appropriately managed; and assuring that OPG's credit risk is appropriately managed.

Internal Audit

Internal Audit provides independent, objective assurance of the organization's operations, maintains a 24-month rolling strategic audit plan which includes key risk audits, mandatory audits, cyclical audits, major project audits, contract audits and other audits and reviews.

Controllership

Controllership provides accounting, reporting, budgeting, and financial advice and guidance to the business units. There are specific departments dedicated to nuclear and hydroelectric stations and their costs are directly assigned to these business units. As well, other controllership departments provide support to all OPG business units and their costs are allocated based on OPG's allocation model. Controllership also prepares income tax returns and provides advice in income and commodity tax matters.

Business and Investment Planning

Business and Investment Planning provides corporate level planning, evaluations and property tax services. Business Planning's responsibilities include business planning guidance and strategy, financial planning, forecasting and reporting, and financial strategy and performance management. Investment Planning performs financial evaluations of major investment initiatives and provides tools and programs to assist business units in their own evaluations.

Treasury

Treasury is responsible for the management of cash, financial exposure, capital structure, the Ontario Nuclear Funds Agreement funds, administration of the insurance program and oversight for OPG pension funds.

Exhibit F3-T1-S1 Tables 4 and 5 summarize Finance costs allocated to nuclear and regulated hydroelectric over the historical, bridge and test years.

Finance Benchmarking

Finance participated in a benchmarking exercise undertaken by the Hackett Group in 2007. This was followed by a mini benchmarking exercise – the "Benchmark Progress Report – Finance" in 2009, that was based on 2008 data. The purpose of the 2009 report was to assess performance related to resource allocation. Hackett has prepared a report comparing OPG's FTE, cost and transaction data to the median value of a peer group of 11 energy companies considered to have similar demographics and complexity as OPG (see Ex. F5-T3-S2).

The benchmarking progress report shows that for total costs, Finance scored in the 2nd quartile of its peer group on total finance costs as a percent of total revenue (before rebates). As well, when total finance costs are considered against revenue (after rebates), Finance's cost as a percent of revenue has declined from 0.84% in 2006 to 0.81% in 2008. Total FTE's have been reduced slightly from 240.7 in 2006 to 237.4 in 2008. FTE's per billion of revenue is slightly higher than the median for the peer group at 38.0 vs. 35.5 for the peer group.

Of Finance's total resources, 40% (38% in 2006) are assigned to Transactional Processing which includes Cash Disbursements and General Accounting and Reporting. In 2008, OPG was slightly lower (at 5.2 FTEs) than its peer group (at 5.7 FTEs) on the number of FTEs processing transactions for cash disbursements per billion of revenue but opportunities exist in reducing the cost per transaction. OPG's rate for General Accounting and Reporting is 10.7 FTEs per billion of revenue and its peer group's median is 10.0 FTEs per billion of revenue.

OPG also scored well against its peer group for Tax Management. OPG's rate for Tax Management is below the 2008 peer group median: 1.8 FTEs per billion of revenue for OPG vs. 2.8 FTEs per billion of revenue for the peer group.

Finance has reviewed all the observations and findings from both benchmarking exercises and is formalizing an action plan to address the gaps. For example, OPG addressed findings from the 2006 study related to automation and successes were achieved in automating and standardizing both internal and external reporting resulting in efficiency gains in 2009. Areas of focus for 2010 and 2011 include ongoing standardized reporting, business planning, forecasting and budgeting.

3.2 Corporate Affairs

Corporate Affairs includes Energy Markets, Regulatory Affairs and Corporate Strategy, Public Affairs, Environmental Affairs, Sustainable Development, and Emergency Management and Business Continuity.

Energy Markets

Energy Markets coordinates the offering of OPG’s regulated facilities into the IESO market. This includes outage planning and strategies to optimize production based on market price signals, and to manage generation risks. Energy Markets is also responsible for providing analysis on regulatory issues, responding to proposed market rule changes, compliance and market monitoring, energy revenue planning and forecasting, and emergency preparedness.

The regulated facilities benefit from this group as its services are necessary to offer energy into the IESO market, to meet regulatory and operating limits, to meet reporting commitments, and to arrange confirmation of timing of planned outages with the IESO, while operating efficiently and effectively.

Regulatory Affairs and Corporate Strategy

Regulatory Affairs and Corporate Strategy Division (“RA&CSD”) is responsible for OPG's interactions with economic regulators. These include the OEB, IESO, the National Energy Board and other Canadian and U.S. regulators that play an important role in OPG’s operations. RA&CSD provides regulatory intelligence, strategy, and advice and also manages regulatory interactions to obtain approvals and outcomes that allow OPG to accomplish its business goals.

Specific activities include:

- Leading OPG's preparation of the OEB payment amount application.
- Managing OPG's participation in regulatory proceedings and consultations in Ontario and other Canadian and U.S. jurisdictions.
- Coordinating the development of OPG's positions on market issues and advancing these issues through the IESO's stakeholding processes.
- Providing regulatory and strategic support, research, and advice within OPG to facilitate OPG's participation in the electricity industry and to support strategic decisions.
- Obtaining and maintaining all necessary regulatory approvals for OPG to participate in the Ontario electricity market and other markets as required.

<u>Public Affairs</u>

<u>Vice President, Public Affairs</u>

The Vice President, Public Affairs supports the regulated businesses by directing the planning and delivery of communications and issue management advice, guidance and services to support the business unit's ongoing efforts to earn and maintain the public franchise to operate regulated facilities in Ontario. This includes the development of communications and issue management strategies to improve OPG's relations with (Nuclear and Hydroelectric) host communities, and further their understanding of the company as a safe, reliable, environmentally responsible operator and steward of the Province's generating assets.

<u>Nuclear Public Affairs</u>

Nuclear Public Affairs oversees accountability for OPG's reputation in the nuclear host communities. As well, it is accountable for meeting federal regulator expectations for transparent communication, reporting and outreach within the host community, with key stakeholders, interest groups and the public as well as employees. Nuclear Public Affairs has direct accountabilities for emergency preparedness communications within the host communities and in cooperation with the Corporate Public Affairs group. Nuclear Public Affairs also plays a key role in the nuclear station operations through communication support for driving employee alignment and understanding of the nuclear work program through internal communications. Nuclear Public Affairs provides site Public Affairs staff to execute the external and internal employee communications programs.

Hydroelectric Public Affairs

Hydroelectric Public Affairs provides services to OPG's regulated hydroelectric facilities including:

- Issue management: communication strategies for maintenance work that could impact the local community, communications regarding legal and property issues, strategies for local government relations, water use issues and development and execution of a public safety awareness campaign to inform the public that hydroelectric dams and stations are not safe places for recreation.
- Support for emergency preparedness initiatives.
- Development for local outreach programs that support community projects including community environment and educational initiatives.
- Employee communications: work with Human Resources and the business unit to develop select employee communications (e.g., safety milestone communications, communications of accomplishments to improve employee engagement).
- First Nation Relations: develop communication materials, event planning, and media relations coordination.

Corporate Public Affairs

Corporate Public Affairs in consultation with Hydroelectric and Nuclear Public Affairs supports OPG's regulated business units by managing Internet communications through OPG.com; developing executive speeches and presentations; creating internal employee communications (both intranet management and Power News [staff newsletter]); developing materials and logistics for key announcements/events; preparing Performance Reports and Annual Reports; synthesizing qualitative and quantitative research; managing OPG's Corporate Citizenship Program; and managing print and electronic advertising (e.g., Water Safety campaign for hydroelectric facilities).

Media Relations

Media Relations supports OPG's regulated business units by acting as the prime corporate spokesperson and contact point for media; analyzing media coverage and prepare issues responses; providing assistance for government and stakeholder relations; developing OPG's emergency communications response; coaching OPG spokespersons as required, which includes preparation of communications plans and briefing notes; providing complementary media support to OPG's safety and community programs.

3.3 Business Services and Information Technology

Business Services and Information Technology ("BS&IT") manages the following functions: Information Technology, Real Estate and Services, and Corporate Supply Chain.

Information Technology ("IT")

The IT group oversees OPG's information management and information technology needs. IT is accountable for the strategic planning, management and operations of all business and technical information systems, but excludes support of process computers that control plant systems and operations. IT also administers OPG's information management and governing documents framework.

IT services are provided through a combination of internal staff and an outsource service contract with New Horizon System Solutions ("NHSS"), owned by Capgemini. New Horizon System Solutions provides the delivery of IT application and infrastructure management services for corporate and nuclear systems while internal IT staff provide applications management services to Energy Markets due to the commercially sensitive nature of the applications, as well as specific infrastructure and applications management services to staff at the regulated hydroelectric sites. The infrastructure management services include desk-side support, helpdesk/call centre, e-mail, Internet, remote access, disaster recovery, IT security network (LAN/WAN) and data centre operations. Application management services includes maintenance and development support for enterprise and custom applications (see Attachment 1 section 3 for detail of IT services).

In 2009, OPG completed a leveraged renegotiation of its outsourcing agreement with NHSS. The key objectives of the renegotiation were further reductions in the ongoing costs of IT services and the implementation of a market-based pricing structure that will provide opportunities for further costs reductions as OPG's business needs change. The annual savings targets were achieved during the renegotiation and compared to the previous agreement, OPG expects to save about $100M by the end of the five-year extension included in the new agreement. A summary of the outsourcing agreement between OPG and New Horizon System Solutions is included in Attachment 1.

Information Technology established a 5-Year IT Strategy in 2008 to optimize the delivery of its assets and services. Based on the strategy and the results of external benchmarks, IT has defined an aggressive plan to reverse the trend of year-over-year cost escalation due to economic increases, increased usage and introduction of new assets. IT is targeting to maintain its OM&A costs at a constant level between 2010 and 2012. This will be achieved through increased demand management, service optimization, application rationalization, and negotiated savings in outsourced services.

Exhibit F3-T1-S1 Tables 6 and 7 present the BS&IT group's costs allocated to nuclear and regulated hydroelectric over the historical, bridge, and test years. The costs related to the New Horizon services include: Infrastructure Management, Application Maintenance, Data Centre Services, and Other Services and are explained in more detail below.

The Infrastructure Management costs identified in the tables refer to the volume-based costs of New Horizon services such as network management for both data and voice, end-user services such as service desk management and desktop support, IT security, disaster recovery and business continuity planning.

Application Maintenance costs cover the New Horizon services focused on providing day-to-day support for OPG's portfolio of business applications including: application maintenance and support, applications operations and monitoring, application upgrades, database and middleware support. IT also work closely with the application owners to plan for patches and technical upgrades, life cycle planning, release management, testing and commissioning and overall demand management.

Data Centre Service costs are New Horizon services related to the management of the mainframe, Unix and Wintel servers, storage and backup system, capacity planning and performance tuning, system operations and monitoring and IT facilities.

The Other Services referred to in the tables include New Horizon fixed costs for services such as Account Management (contract governance), Service Management (incident, problem, asset and configuration management as well as operational and service level reporting), Energy Market Systems operations, monitoring and support and IT Procurement Services.

The IT Support Costs identified in the tables refers to the cost of the internal IT support groups providing IT Service and Project Portfolio management, IT Enterprise Strategy and Architecture and IT Programming and Performance Management.

Real Estate and Services

The Real Estate and Services group provides centralized support services through four departments: Real Estate Services, Facility and Project Services, Business Services, and Fleet Services.

OM&A costs are tightly controlled through service area expertise, demand management, effective space and service utilization, economies of scale (as a centralized service provider), outsourcing (to the extent permitted under collective agreements), competitive procurement and staff reductions.

Real Estate Services

On a corporate-wide basis, Real Estate Services acquires, manages and disposes of real estate rights and interests; manages real estate data, consults on municipal planning issues; and develops and implements accommodation strategies to meet space requirements outside the generating stations.

For nuclear, Real Estate Services manages all commercial leases within the Region of Durham as well as various licenses and other real estate rights; incurs rent for major long-term leased facilities (currently 889 Brock, 777 Brock, 2255 Forbes and 1549 Victoria) as well as the cost of utilities for the OPG-owned Pickering Learning Centre; and develops and implements accommodation strategies.

For hydroelectric, Real Estate Services manages all real estate rights and interests (including water power leases, commercial leases, flooding easements and waterfront licenses); and provides and manages real estate data and property documents.

Facility and Project Services

Facility and Project Services provides property management services, space planning, move co-ordination, office furniture and facility project management services. In addition, emergency response services are provided for all facilities under its control, along with generating station support as requested.

For Nuclear, Facility and Project Services supports facilities outside the generating stations including all such facilities located in Durham Region as well as space occupied at 700 University Avenue, 800 Kipling Avenue and Wesleyville, and certain facilities at the Bruce site.

For hydroelectric, Facilities and Projects supports its space at 700 University Avenue.

Business Services

Business Services provides administrative infrastructure support, information processing and storage and general process support. Business Services also provides corporate-wide services such as graphics, audio/visual, printing, as well as records management, document processing, office equipment, office supplies and process support for staff located at 700 University Avenue as well as Nuclear Programs and Training, and Inspection and Maintenance Services staff located at certain facilities in Durham Region.

Fleet Services

Fleet Services provides corporate-wide fleet administration services including technical advice, acquisition/redeployment, fleet leasing program, fleet credit card program, licensing and insurance and processing of operating costs.

In addition to the OM&A costs to support these services, OM&A costs of managing common real estate assets held centrally (e.g., OPG Head Office) are within Real Estate. The generation business units are charged an asset service fee related to the use of these centrally held assets (Ex. F3-T2-S1).

Exhibit F3-T1-S1 Tables 6 and 7 summarize Real Estate costs allocated to nuclear and regulated hydroelectric over the historical, bridge, and test years.

Corporate Supply Chain

The Corporate Supply Chain ("CSC") group is responsible for procuring services and materials and managing contracts for OPG's Corporate support groups (e.g., Human Resources, IT, Real Estate, Finance, etc.). Corporate Supply Chain focuses on maintaining integrity in the procurement process, delivering value for money and protecting OPG and its assets. Corporate Supply Chain has OPG-wide accountability for creating Supply Chain governance and performance reporting, maintaining the OPG-wide Contractor Management Program and coordination of Supply Chain-wide initiatives.

There are three departments in CSC: IT Procurement, Corporate Procurement and Supply Chain Services.

- IT Procurement group is responsible for developing and executing IT sourcing strategies in support of the IT group. IT Procurement also carries out contract management of OPG's IT outsourcing agreement.

- Corporate Procurement group is responsible for developing and executing on sourcing strategies to support the corporate groups.

- Supply Chain Services group is responsible for OPG-wide Supply Chain governance and performance reporting, the Contractor Management Program and coordination of Supply Chain-wide initiatives.

Exhibit F3-T1-S1 Tables 6 and 7 summarizes Corporate Supply Chain costs allocated to nuclear and regulated hydroelectric over the historical, bridge, and test years.

Information Technology ("IT") Benchmarking

IT benchmarking is conducted with the goal of providing data to support the IT business in driving continuous improvement and the adoption of industry leading practices. IT has been benchmarking itself since 2005 in order to understand its spending and staffing profiles within the context of the electric utility industry and to measure its progress towards becoming a top quartile performer. In 2008, IT developed a 5-Year IT Strategy based on evolving business requirements, technology trends and industry benchmarks. The strategy provides a clear vision of the required future state and a comprehensive road map to achieve top quartile IT cost and service performance while increasing IT value contribution to the business and improving IT staff engagement.

IT uses the benchmarking data services of Electric Utility Cost Group ("EUCG"), a non-profit association with membership from North American and international utilities. The EUCG was selected as its peer group is comprised solely of electric utilities; thereby offering the best comparison to OPG's operations. However, it should be noted that the majority of the members in the EUCG peer group are integrated (generation, transmission, distribution, retail) utilities where administration costs are allocated among the integrated businesses.

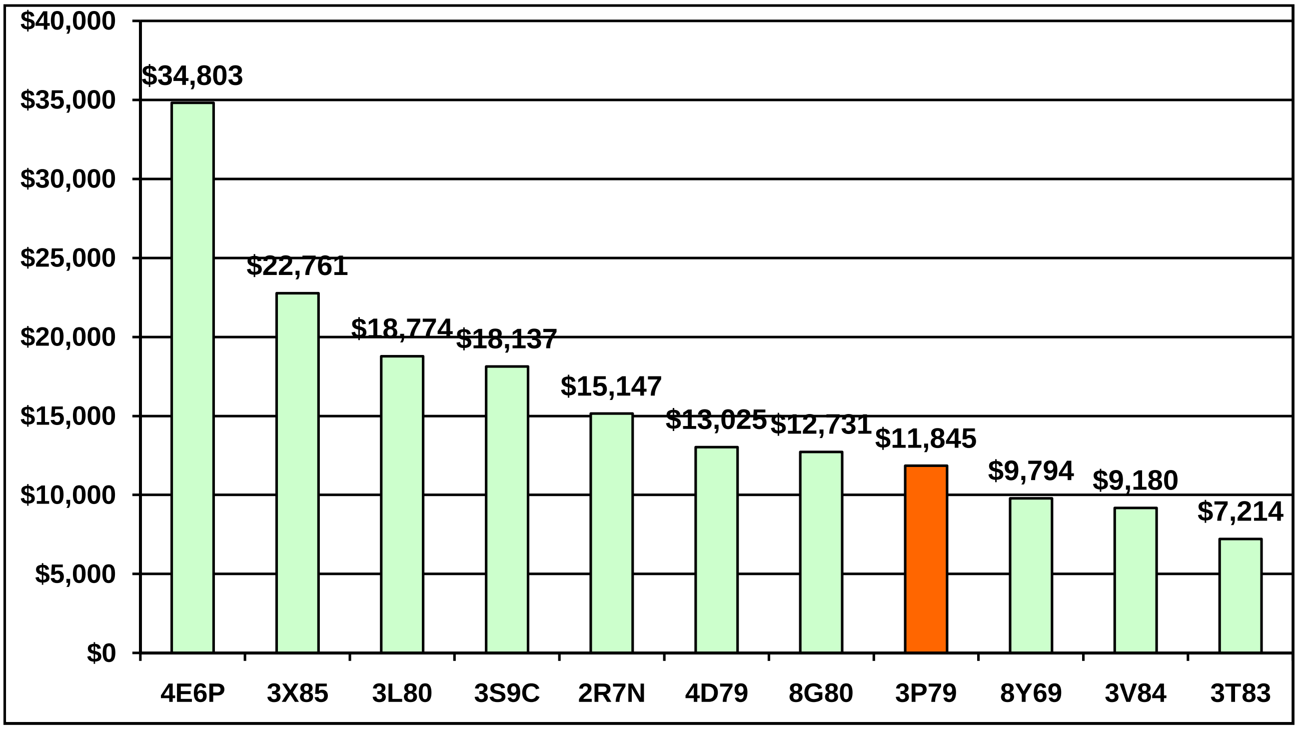
EUCG data was used by IT to compare OPG against ten North American electric generation utilities' IT spending per employee and IT spending per GWh. The results for the two metrics are as follows:

2008 EUCG Comparator Group Data

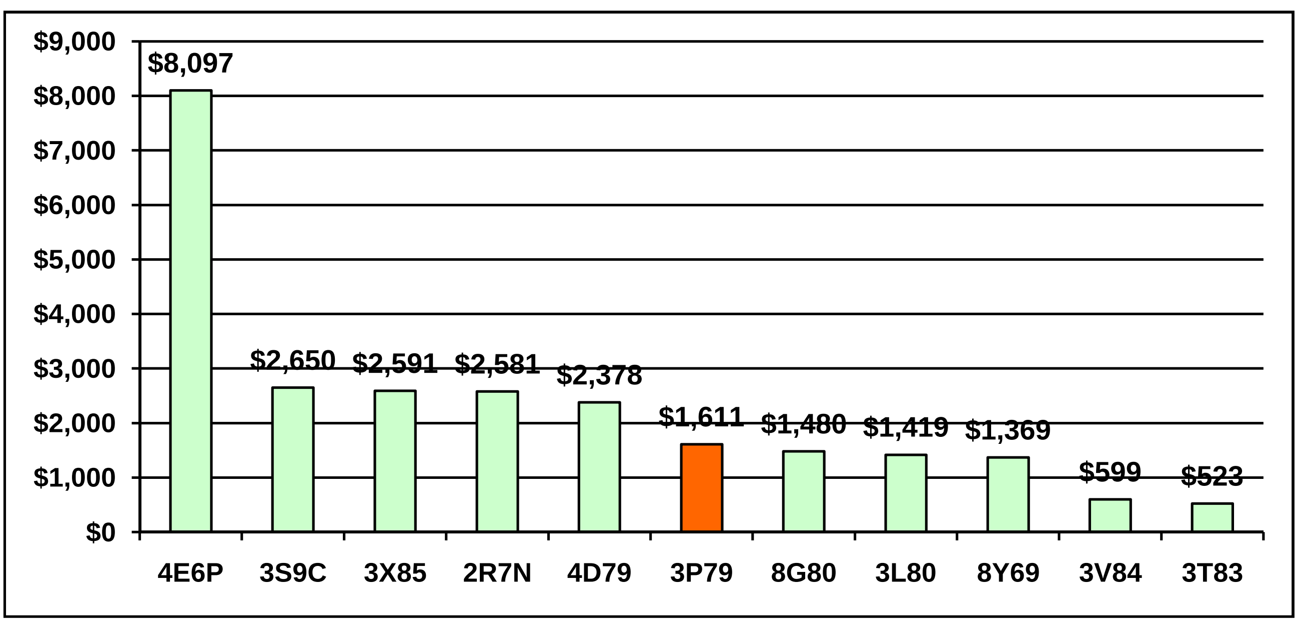
Metric	OPG	Q1	Median Q2	Q3	Average
IT Spending (k$)/Employee	$11.8	< $9.7	< $12.7	< $18.7	$15.7
IT Spending (k$)/ GWh	$1.6	< $1.4	< $1.6	< $2.5	$2.3

The results indicate that OPG's IT costs in 2008 were within the second quartile for IT spending per employee and at the median for IT spending per GWh. While these results put OPG in a median position for 2008, there is a general recognition among the peer group of utilities that there is continuing pressure to further reduce IT costs. The IT group used the benchmark results as an input into the development of the IT Strategy and business plan. As part of the strategy and business plan it has committed to a significant reduction in IT spending in the 2010 plan over previous plans in order to sustain its position within the peer group. OPG's position within the peer group on the two metrics is presented in the following graphs:

2008 IT Spend/Employee – OPG shown in Red.



2008 IT Spend/GWh - OPG shown in Red.



3.4 Corporate Centre

The corporate centre includes the Executive Office (Chairman, President and CEO offices), the Corporate Secretary function, Law, and Corporate Business Development. The Executive Office is responsible for the overall management and strategy for the company. The Corporate Secretary function supports the Board of Directors ("the OPG Board") and the Executive Offices, and interfaces between the OPG Board, management and OPG's shareholder.

Law

Law provides legal advice and services to support all business units across OPG, including:

- Support for procurement activities for materials, fuel, equipment and services, information technology, corporate governance, and finance.
- Support for all corporate and commercial matters related to all business units and advice related to OPG's pension and nuclear funds.
- Advice on real estate, energy markets, Bruce lease and related agreements, and water resources.
- Advice on energy regulatory matters, including the OEB payment amount application, environmental approvals and compliance, nuclear licensing, litigation, municipal approvals and land use planning, First Nations issues, freedom of information request, and occupational health and safety compliance.
- Advice and services in the areas of labour, employment and privacy law.

Law costs are directly assigned to the business units they support through estimates of percentage of time spent in support of these business units.

Executive Office and Corporate Secretary

The costs of the Executive Office and Corporate Secretary are allocated to the business units by applying the appropriate cost drivers. All Executive Office and Corporate Secretary costs are allocated based on a blend of costs for OM&A and capital expenditures.

Corporate Business Development

Corporate Business Development is responsible for developing and maintaining an integrated corporate business development strategy to:

- Assesses and recommend new business opportunities.
- Establish and maintain an integrated portfolio-based generation and site asset strategy.
- Develop and implement external and internal partnership in support of the corporate strategy.

Corporate Business Development's costs are not allocated or assigned to the regulated facilities.

3.5 Human Resources

Human Resources supports the organization in effectively managing and developing a highly skilled workforce to achieve its goals and objectives. It provides strategic advice, services and support in the areas of: talent management and staffing, human resource planning and reporting, labour relations, employee safety and wellness, compensation and benefits, ethics and code of business conduct, payroll services and generalist human resources services in the field. There are generalist human resources departments dedicated to the nuclear, thermal, hydroelectric and corporate business units, as well as specialist human resources departments that serve all of OPG.

Benchmarking of the human resources function is presented below.

Safety, Wellness and Total Compensation

The group is responsible for developing compensation and benefits policy, strategy and programs including base pay, performance based incentives, benefit programs, pension programs.

In addition, the Safety, Wellness and Total Compensation group is responsible for corporate safety and employee wellness strategy and services, payroll administration, and HR policies and reporting.

<u>Site (Nuclear and Regulated Hydroelectric) Human Resources and Employee Safety</u>

These staff provide services at the production facilities. Site Human Resources provides human resources and employee safety strategy, services, advice, programming, and governance in support of the business units. Support is provided in areas such as time entry systems and processes, talent management, compensation and benefits, collective agreement administration, dispute resolution, employee engagement, safety, wellness, absent/injured worker management, succession planning, performance management, leadership effectiveness,and human resources administration.

As well, Site Human Resources includes an employee safety function which assists the corporation in fulfilling their requirements as outlined in the *Occupational Health and Safety Act of Ontario*.

<u>Labour Relations</u>

Labour Relations provides strategic advice on issues related to collective bargaining and grievance management. It is responsible for the administration of the collective agreements for Power Workers Union ("PWU"), Society and Building Trade Unions ("BTU"). Approximately 90 per cent of OPG's workforce is unionized. There are approximately 7,500 PWU and 3,500 Society staff at OPG. BTU staff numbers vary based on the projects that are being carried out at OPG.

<u>Corporate HR and Employee Safety</u>

Corporate HR and Employee Safety is responsible for providing generalist functions and services to the corporate function groups and is the specialist area responsible for organization development activities. They are responsible for long-range planning and the development and support of employee development and talent management programs to support business strategies and ensure the supply and development of employees across the organization. The department supports this service by providing senior leadership to executive recruiting and succession planning activities.

Senior Vice-President

The Senior Vice President's office holds the budget for all human resources consultants and purchased services requirements.

Exhibit F3-T1-S1 Tables 8 and 9 summarize human resources costs allocated to nuclear and regulated hydroelectric over the historical, bridge, and test years.

Human Resources Benchmarking

OPG participates in a benchmarking group called the Electric Utility HR Metrics Group ("EU-HRMG"). This group benchmarks performance on a cross-section of human resources ("HR") metrics annually with data reported from each participating utility. The data uses a consistent definition of HR functions that are benchmarked across 40 member utilities. The data excludes HR functions such as wellness, safety, and payroll. ScottMadden Management Consultants has prepared a summary report (see Ex. F5-T3-S1) of the HR benchmarking analysis and a summary of the results. The ScottMadden HR report concludes that OPG's HR function:

- Makes efforts to effectively benchmark and actively leverages its benchmarking results to improve the HR function.
- Is better than peer group median on spending per HR FTE ("full time equivalent") to deliver a comparable set of HR services and at median on investment per employee in HR programs.
- Shows a positive trend for reducing HR expenses as a per cent of operating expenses over the last five years as opposed to the growth in relative HR expenses shown by the peer group over the same period.
- Has decreased HR expenses per employee and shown improvement in the cost of delivering HR services to employees over the five year period.
- Has lower overall hiring costs due to better retention rates for new hires and lower overall separation rates for the company as a whole.

- Has lower overhead costs relating to OPG's management span of control which is the broadest among the peer group.
- Provides HR support at an average or lower cost than the peer group companies, even with HR staff ratios that are lower than most of the peers.

In addition to sustaining the areas of positive performance, HR will focus on improving HR processes and refining the HR service delivery model to optimize efficiencies and increase effectiveness. Performance targets have been incorporated into business planning and the HR scorecard to drive improvements in the hiring cycle process and the HR FTE/employee ratio.

4.0 METHODS OF ALLOCATION

OPG's allocation methodology was independently evaluated by Black & Veatch and approved by the OEB as part of EB-2007-0905. The model uses two methods to distribute shared costs among the business units: direct assignment and allocation.

4.1 Direct Assignment

Direct assignment is used when specific resources, both individual employees and specific cost items, used by a particular business unit can be reasonably established. There is specific identification of resources where there is a direct relationship between the costs incurred and the business unit that causes the costs. Estimation of the resources used by the business unit may be based on current time estimates or historical activity.

4.2 Allocation

Allocations are used when more than one business unit uses a resource, but the portions of the resource that each uses cannot be directly established. In these cases, a cost driver is used to allocate the costs of the resource. A cost driver is a formula for sharing the cost of a resource among those who caused the cost to be incurred. There are two types of cost drivers: external and internal drivers. External drivers are based on data that are external to the allocation process. For example, the Accounts Payable

Department's costs are allocated to business units based on the number of transactions processed for each group. Internal drivers are based on values computed as part of the cost allocation process. For example, a supervisor's salary may be allocated in proportion to the salaries of the people being supervised.

OPG used three steps when allocating a department's costs:

- Step One – Specific Identification of Resources.
  - The costs of resources specifically identified to a business unit are assigned to it.
  - Labour: Identifying individuals who support only one business unit.
  - Non-labour: Identifying costs directly caused by one business unit.

- Step Two – Estimation of Resources

The next step is to identify the resources in each department that directly support one or more business units and to estimate the resources attributable to each business unit. The costs of these resources are directly assigned to each business unit in proportion to the estimated time required by that business unit.

- Step Three – Assign Cost Drivers

Where no direct relationship exists, a cost driver is assigned to each type of expense. Similar activities have similar or standardized cost drivers. Black & Veatch has recommended standardized cost drivers and OPG has adopted these recommendations. A list of cost drivers used by each business unit is provided in Exhibit B of the Black & Veatch Report (see Ex. F5-T2-S1).

OPG department managers and the business units were consulted and supporting analyses were prepared to support the specific identification/direct assignment, and in selecting cost drivers which improves the quality of the cost allocation process. The department managers are in the best position to determine how resources are used.

5.0 COST ALLOCATION METHODOLOGY REVIEW

OPG retained Black & Veatch in 2009 to review and evaluate the cost allocation methodology used to assign and allocate corporate support costs to nuclear and regulated hydroelectric. The scope of the assignment also included a review to determine and document OPG's compliance with the OEB's "3-prong test".

Black & Veatch's findings on OPG's cost allocation methodology as identified in its report are as follows:

- OPG's cost allocation process has the support of senior levels of management.
- OPG's cost allocation process uses the principles of direct assignment and cost drivers that are key components of current best practices and OEB precedents.
- OPG's process relies on the judgement of departmental managers and business units to support specific identification and time estimates. These are the people in the best position to determine how resources are used.
- Supporting analyses were prepared by many of the central support and administrative costs groups and departments, including detailed analyses of activities, identification of specific resources, interviews to determine time estimates and reviews of invoices to determine historical usage.
- The business units to which the central support and administrative costs are distributed are familiar with the cost allocation process, confirmed where appropriate that specific resources are used by them and confirmed that the functions and services for which they are allocated costs are actually being received by them.

Summary of Conclusions by Black & Veatch

- The overall approach is appropriate for the business organization of OPG.
- Direct assignment of costs by specific identification and by estimation is based on sufficient information reasonably applied.
- Direct assignments are used wherever possible.
- The costs drivers selected by OPG for those instances where not all costs are directly assigned are appropriate.

The methodology used by OPG to distribute the corporate costs separates the costs between regulated and unregulated business units in a manner that meets current best practices and is consistent with cost allocation precedents established by the OEB.

Recommendations:
Black & Veatch has made the following recommendation in their 2010 report with respect to documentation:

> We recommend that the documentation for the cost allocation models, which OPG has drafted, be completed and expanded to be more applicable to business users.

In response to this recommendation, OPG has initiated a review of the documentation including desktop procedures for business users. OPG expects to have the documentation prepared and finalized in 2010.

In the Black & Veatch 2006 Report a number of recommendations were made to improve OPG's processes. Black & Veatch reviewed these recommendations and included the following in their 2010 Report.

> Black & Veatch reviewed the recommendations made to OPG in their 2006 Report and found that they have been implemented, including improved documentation for the cost allocation methodology and process and separately assigning or allocating labour and non-labour costs.

5.1 Review of OPG's Compliance with the 3-Prong Test

The Black & Veatch 2010 report includes an evaluation of OPG's compliance with the 3-prong test (see Ex. F5-T2-S1) which is summarized as:

1. <u>Cost incurrence</u>: Were the corporate centre charges prudently incurred by, or on behalf of, the utility for the provision of services required by Ontario ratepayers?

2. Cost allocation: Were the corporate centre charges allocated appropriately to the recipient companies based on the application of cost drivers/allocation factors supported by principles of cost causality?

3. Cost / benefit: Did the benefits to the Company's Ontario ratepayers equal or exceed the costs?

Conclusion on cost incurrence

Black & Veatch concluded that service providers tailor their offerings to meet the needs of the service recipients (Regulated Hydroelectric and Nuclear), and the levels of service they provide are adequate but not excessive. The centralized support and administrative costs were prudently incurred for the benefit of the service recipients, to enable them to meet the needs of the Ontario ratepayers they serve.

Conclusion on cost allocation

Black & Veatch reviewed the cost allocation methodology separately, as reported above. In addition the service recipients are familiar with the cost allocation methodology, and believe the cost allocations are appropriate and reflect differences in levels of service.

Conclusion on cost/benefit

Black & Veatch found that service providers explicitly consider the needs of the service recipients in developing their budgets, and often weigh explicitly the benefits and costs of activities they are considering. Benchmark studies indicate the major service providers are average or favourable to average performers.

Overall Conclusion on 3-Prong Test

Black & Veatch found that OPG's allocated centralized support and administrative functions and service costs meet the requirements of the OEB's 3-prong test. The responses to the questionnaires, including the interviews conducted by Black & Veatch as well as other information reviewed provide sufficient, reliable evidence on which to make this assessment.

A copy of the Black & Veatch Corporation Report is provided in Ex. F5-T2-S1.

6.0 SUMMARY OF COST DRIVERS USED IN COST ALLOCATION PROCESS

Detailed Listing OPG Cost Drivers		
	Directly Assigned	**Allocated**
Corporate Affairs		
Regulatory Affairs	Specific and estimates	Capital and OM&A
Corporate	Specific and estimates	Capital and OM&A
Site Specific Public Affairs	Direct	None
Emergency Preparedness	Specific and estimates	Capital and OM&A
Sustainable Development	Specific and estimates	Capital and OM&A
Energy Markets	Specific and estimate	Capital and OM&A
BS&IT		
Information Technology		
Infrastructure Management	Specific and estimates	Unix, LAN ids, Storage, # of PCs
Application Management	Specific and estimates	LAN ids, Nuclear applications, SAP
Data Center Services	Specific and estimates	Mainframes, LAN ids
Other Services	Specific and estimates	Various
IT Support Costs	Specific and estimates	Managed Contracts, telecom, hardware, miscellaneous
Supply Chain	Specific and estimates	Various
Real Estate	Specific and estimate	FTEs
Corporate Centre	Time estimates	Capital and OM&A
Finance		
Financial Services	Specific assignment	Capital and OM&A
Controllership	Direct	Capital and OM&A
Business and Investment Planning	Specific and estimate	Capital and OM&A
Treasury	Specific assignment	Capital and OM&A
Internal Audit	Specific assignment	Capital and OM&A
Human Resources		
Compensation	Assigned FTE's	FTE's
Site HR	Direct	None
Labour Relations	Assigned FTE's	FTE's
Corporate HR	None	FTE's
HR EVP	None	FTE's

LIST OF ATTACHMENTS

ATTACHMENT 1

Summary of New Horizon System Solutions Outsourcing Agreement

1.0 PURPOSE

The purpose of this evidence is to provide an overview of the structure and the key components of the New Horizon System Solutions ("NHSS") outsourcing agreement.

2.0 BACKGROUND

In 2009, OPG completed a leveraged renegotiation of its outsourcing agreement with NHSS. The key objectives of the renegotiation were further reductions in the on-going costs of IT services and the implementation of a market-based pricing structure that will provide opportunities for further cost reductions as OPG's business needs change.

The leveraged renegotiation was the result of comprehensive preparation by OPG that began in early 2007 and is consistent with market best practices. The preparation included activities to evaluate strategic options, an independent assessment of those options, and several independent reviews to size the cost reduction opportunity and the conditions needed to realize that opportunity in order to establish appropriate cost savings targets. The preparations culminated in the approval of a business case recommending the levered renegotiation approach and savings targets of at least $10M annually to be sought in negotiations. The renegotiation approach offered the following benefits:

- Building on the existing outsourcing experience to arrive at service structures and pricing models more closely aligned to today's marketplace
- Minimization of transition costs and risk
- Earlier on-going savings
- Greatest opportunity for success through joint solutioning with a motivated vendor (NHSS)

The annual savings targets were achieved during the renegotiation and compared to the previous agreement, OPG expects to save about $100M by the end of the five-year extension included in the new agreement. Afterwards, the strategy, its development, and its execution were independently assessed by Everest Group Canada and KPMG. Their assessments, conducted based on their market experience and research, found that

> OPG was entirely consistent with leading practices in both the process to develop its End of Term Strategy ("ETS") and in the ETS itself, i.e. manner in which the strategy was executed.

3.0 SUMMARY OF SIGNIFICANT FEATURES OF THE CONTRACT

3.1 Service Components

Base Services

Base Services consists of internal and external labour costs, third party contracts, and some consumables incurred by NHSS in providing the following services:

- Data Centre Services
  Management of OPG’s mainframe, Unix and Wintel servers, storage and backup systems, capacity planning and performance tuning, systems operations and monitoring and IT facilities.
- Network Services
  Management of OPG’s Local Area Networks, Wide Area Networks, voice systems, firewalls, capacity planning, network performance optimization and network infrastructure upgrades.
- End User Services
  Management of OPG’s desktop environment, help desk support, remote access support, mobility services, printing and image management, software packaging and distribution service.
- Security and Disaster Recovery Services
  System access management, vulnerability management, IT security monitoring, intrusion management, investigations, disaster recovery planning and disaster recovery testing services.
- Application Maintenance

Day-to-day support for OPG's portfolio of business applications including: maintenance and support, operations and monitoring, upgrades, database and middleware support.

- Service Management
  Service Delivery and cross-tower Service Management support. Single point-of contact with business users for all non-project related delivery matters. Responsible for overall quality of IT service delivery and attainment of service levels. Provides cross tower support in the areas of Incident, Major Incident, Problem, Change, Asset and Configuration, and Operational and Service Level Reporting.

<u>Project Services</u>

Project Services consists of IT application development or infrastructure improvement projects and may include the management and delivery responsibility for project services provided by of third parties. OPG is committed to purchase a specified minimum amount of Project Services in each contract year.

<u>Procurement Services</u>

New Horizon System Solutions procurement service will focus on tactical procurement for about 200 third party contracts covering vendors providing information technology commodities and services to OPG. For a limited number of the above contracts, NHSS provides vendor selection and contract negotiation services. These services are delivered in a manner consistent with OPG procurement policies and related governance.

<u>Termination Services</u>

In the event of contract termination, NHSS is obligated to provide the activities necessary to transfer services to another service provider, back to OPG, or both as the case may be. Termination services are billed at rates equal to the project rates in effect at the time.

3.2 PRICING

Pricing Structure

Pricing for base services is broken down into fixed and variable elements. The variable elements allow for price adjustments to reflect changes in volumes of services consumed. The overall price is set to decline over the term of the agreement for the volumes that exist at the start of the agreement.

Pricing for project services is broken down in three components: Project Delivery Services, Staff Augmentation Services, and Project Support Services. Project Services will be delivered under two different pricing structures: fixed fee, and time and materials. OPG is able to view the details of the estimate and has the option of a third-party audit of the individual estimates. The fees for time and materials projects will be based upon an agreed rate card.

Inflation Adjustments

All labour-related costs are adjusted annually according to the Toronto Consumer Price Index. For the base services, the annual increase is capped at 2 per cent.

4.0 COST SAVING INITIATIVES

Guaranteed Price Reduction

Effective October 1, 2009, the price to OPG for the initial set of base services was reduced to a level below OPG's previous price for those same services. On January 1 each year, commencing in 2010, the price for base services is further reduced, leading to an annual reduction of over $16M by 2015 for the same service level and volume. This price reduction is guaranteed to OPG based on the existing service volumes and levels.

Labour Inflation Protection

OPG's exposure to labour cost inflation is capped through the contract term. Only the labour component of the price for services can be adjusted for inflation and that adjustment is limited to Toronto CPI (Consumer Price Index) to a maximum of 2 per cent in the case base services.

Market Based Price Structure

The 2009 Information Technology Service Agreement contains a market-based price structure. The addition of a variable pricing model will provide OPG with additional cost reduction benefits as it adjusts its IT service requirements to match changing business needs over the term of the contact.

5.0 BENEFITS OF OUTSOURCING

The successful implementation of the information technology outsourcing has provided, and is expected to continue to provide, significant benefits to OPG as listed below:

- It allows OPG to focus on its core business which is the safe, efficient production of electricity.
- OPG benefits from economies of scale achieved and maintained by NHSS such as NHSS's purchasing power for IT related products and services.
- It continues to drive efficiencies in the form of a contracted reduction in the cost of Base Services effective October 1, 2009.
- It transfers service delivery risk to NHSS, with financial penalties if specified service levels are not met.
- The outsourcing arrangement provides OPG with a ready source of highly trained staff with technical expertise.
- It establishes a variable pricing structure which allows OPG to adjust its IT service requirements to match changing business needs.

Numbers may not add due to rounding.

Table 1
Corporate Support & Administrative Groups - OPG ($M)

Line No.	Corporate Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Business Services & IT**[1]	214.0	207.4	207.2	205.2	208.2	207.9
2	**Finance**[2]	58.4	58.1	60.5	60.4	60.3	60.5
3	**Human Resources**	51.2	53.2	53.8	54.0	54.8	55.3
4	**Corporate Affairs**	43.3	49.4	47.1	55.8	51.7	54.8
5	**Corporate Centre**[3]	19.2	21.5	19.3	26.2	26.5	28.1
6	**Total**	386.1	389.6	387.9	401.6	401.5	406.6

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Corporate Supply Chain transferred to BS&IT.
3 Corporate Centre includes Executive Office, Corporate Secretary, Corporate Business Development, and Law.

Numbers may not add due to rounding.

Table 2
Allocation of Corporate Support & Administrative Costs - Regulated Hydroelectric ($M)

Line No.	Corporate Group	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Business Services & IT**[1]	8.5	10.0	10.6	9.2	9.5	9.5
2	**Finance**[2]	4.6	4.9	4.3	3.5	3.7	3.7
3	**Human Resources**	2.2	2.3	2.3	2.2	2.3	2.3
4	**Corporate Affairs**	4.9	7.3	6.5	8.3	7.7	8.7
5	**Corporate Centre**[3]	1.7	1.8	1.2	1.9	1.6	2.1
6	**Total**	21.9	26.3	24.9	25.1	24.8	26.3

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Corporate Supply Chain transferred to BS&IT.
3 Corporate Centre includes Executive Office, Corporate Secretary, Corporate Business Development, and Law.

Numbers may not add due to rounding.

Table 3
Allocation of Corporate Support & Administrative Costs - Nuclear ($M)

Line No.	Corporate Group	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Business Services & IT**[1]	146.6	137.9	137.1	141.7	144.3	144.2
2	**Finance**[2]	32.0	32.1	35.3	35.6	35.8	36.0
3	**Human Resources**	36.3	36.5	36.3	36.3	37.1	37.6
4	**Corporate Affairs**	14.6	18.2	15.2	21.0	19.1	20.6
5	**Corporate Centre**[3]	11.2	12.9	10.6	12.4	12.9	13.9
6	**Total**	240.7	237.6	234.5	247.0	249.2	252.3

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Corporate Supply Chain transferred to BS&IT.
3 Corporate Centre includes Executive Office, Corporate Secretary, Corporate Business Development, and Law.

Table 4
Allocation of Finance Costs - Regulated Hydroelectric ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Controllership**[1]	1.5	2.0	2.0	1.7	1.7	1.7
2	**Financial Services**[1,4]	1.5	1.4	1.2	0.7	0.8	0.8
3	**Business & Investment Planning**[2]	0.5	0.5	0.4	0.4	0.5	0.5
4	**Internal Audit**[3]	0.3	0.4	0.2	0.2	0.2	0.2
5	**Risk Services**[3]	0.6	0.5	0.4	0.3	0.3	0.3
6	**Treasury**	0.2	0.2	0.1	0.1	0.1	0.1
7	**CFO Office**	0.0	0.0	0.0	0.1	0.1	0.1
8	**Total**	4.6	4.9	4.3	3.5	3.7	3.7

Notes:
1. Transfer of Corporate Controllership and Tax from Financial Services to Controllership.
2. Formerly Financial Planning & Asset Planning.
3. Internal Audit formerly included with Risk Services.
4. Corporate Supply Chain transferred to BS&IT.

Numbers may not add due to rounding.

Table 5
Allocation of Finance Costs - Nuclear ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Controllership**[1]	11.3	13.6	15.9	15.9	16.0	16.0
2	**Financial Services**[1,4]	10.2	8.9	9.3	9.6	9.5	9.2
3	**Business & Investment Planning**[2]	3.1	2.4	2.8	2.4	2.5	2.6
4	**Internal Audit**[3]	1.9	2.5	2.2	2.9	2.9	3.1
5	**Risk Services**[3]	3.0	2.6	2.6	1.5	1.5	1.5
6	**Treasury**	1.6	1.7	2.2	2.5	2.6	2.7
7	**CFO Office**	0.9	0.4	0.3	0.8	0.8	0.9
8	**Total**	32.0	32.1	35.3	35.6	35.8	36.0

Notes:
1 Transfer of Corporate Controllership and Tax from Financial Services to Controllership.
2 Formerly Financial Planning & Asset Planning.
3 Internal Audit formerly included with Risk Services.
4 Corporate Supply Chain transferred to BS&IT.

Numbers may not add due to rounding.

Table 6

Allocation of Business Services & Information Technology (IT) Costs[1] - Regulated Hydroelectric ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Infrastructure Management**	1.3	1.4	1.5	1.4	1.4	1.4
2	**Application Maintenance**	0.4	0.5	0.5	0.5	0.5	0.5
3	**Data Centre Services**	0.2	0.2	0.2	0.2	0.2	0.2
4	**Other Services**	0.7	0.8	0.9	0.8	0.8	0.8
5	**NHSS Base Costs**	2.6	2.9	3.1	2.9	2.9	2.9
6	**IT Support Costs**	3.4	3.8	4.0	3.4	3.6	3.6
7	**Corporate Supply Chain[2]**	0.2	0.2	0.2	0.2	0.2	0.2
8	**Real Estate**	1.4	2.1	2.2	1.7	1.8	1.8
9	**OM&A Project Costs**	0.9	1.0	1.1	1.0	1.0	1.0
10	**Total**	8.5	10.0	10.6	9.2	9.5	9.5

Notes:
1 Formerly Chief Information Office (CIO).
2 Supply Chain was included in Financial Services in EB-2007-0905 application.

Numbers may not add due to rounding.

Table 7

Allocation of Business Services & Information Technology (IT) Costs[1] - Nuclear ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
2	**Infrastructure Management**	32.0	30.4	30.5	30.5	31.3	31.2
3	**Application Maintenance**	10.8	10.3	10.3	10.3	10.6	10.5
4	**Data Centre Services**	14.9	14.1	14.2	14.2	14.5	14.5
5	**Other Services**	8.1	7.7	7.8	7.7	7.9	7.8
6	**NHSS Base Costs**	65.8	62.5	62.8	62.7	64.3	64.0
7	**IT Support Costs**	35.5	33.7	33.8	35.0	34.5	34.8
8	**Corporate Supply Chain[2]**	2.9	2.8	2.8	3.7	3.8	3.7
9	**Real Estate**	33.1	30.2	28.9	31.4	32.6	32.9
10	**OM&A Project Costs**	9.3	8.7	8.8	8.9	9.1	8.8
11	**Total**	146.6	137.9	137.1	141.7	144.3	144.2

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Supply Chain was included in Financial Services in EB-2007-0905 application.

Numbers may not add due to rounding.

Table 8
Allocation of Human Resources Costs - Regulated Hydroelectric ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Site HR & Employee Safety**	1.3	1.3	1.1	1.0	1.1	1.1
2	**Corporate HR & Employee Safety**	0.4	0.3	0.4	0.4	0.4	0.4
3	**Safety, Wellness & Total Compensation**[1]	0.4	0.4	0.5	0.5	0.5	0.5
4	**Labour Relations**	0.1	0.1	0.1	0.1	0.1	0.2
5	**SVP Office**	0.0	0.2	0.2	0.2	0.2	0.1
6	**Total**	2.2	2.3	2.3	2.2	2.3	2.3

Notes:
1 Formerly Compensation & Benefits and includes Strategy & Support.

Numbers may not add due to rounding.

Table 9
Allocation of Human Resources Costs - Nuclear ($M)

Line No.	Costs	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Site HR & Employee Safety**	16.8	14.7	14.8	14.8	15.3	16.0
2	**Corporate HR & Employee Safety**	5.9	8.7	7.4	6.8	7.3	7.7
3	**Safety, Wellness & Total Compensation**[1]	7.4	8.0	8.1	8.1	8.4	8.8
4	**Labour Relations**	1.8	1.7	2.2	2.4	2.5	2.7
5	**SVP Office**	4.4	3.4	3.8	4.2	3.6	2.4
6	**Total**	36.3	36.5	36.3	36.3	37.1	37.6

Notes:
1 Formerly Compensation & Benefits and includes Strategy & Support.

COMPARISON OF ALLOCATION OF CORPORATE COSTS

1.0 PURPOSE

This evidence describes the period-over-period changes in the corporate support costs that are assigned and allocated to the regulated hydroelectric and nuclear businesses.

2.0 PERIOD-OVER-PERIOD CHANGES - TEST PERIOD, REGULATED HYDROELECTRIC

Exhibit F3-T1-S2 Table 1 provides the period-over-period changes in the allocated corporate support costs for the test period and bridge year. As can be seen from the table, the level of allocated corporate support costs remains stable over the bridge year and test period.

<u>2012 Plan versus 2011 Plan</u>

The 2012 corporate support costs increase by $1.5M relative to 2011 primarily due to economic increases, a 53 week fiscal year and an increase to OEB costs in Regulatory Affairs and Law due to the expectation that there will be a rate application in 2012. The increase in costs is partly offset by planned cost reductions across all the corporate support groups and lower hydro boundary project work (confirming and visually displaying real estate rights) conducted by Real Estate.

Economic increases include changes in labour cost as per the collective agreements and planned increases in facility and utility costs. The various cost saving initiatives in corporate support groups are reviewed during the annual business planning cycle.

<u>2011 Plan versus 2010 Budget</u>

Corporate support costs decrease by $0.3M for 2011 compared to 2010 mainly due to planned cost reduction initiatives, lower OEB costs and lower spend on pandemic supplies, partly offset by economic increases.

3.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR, REGULATED HYDROELECTRIC

2010 Budget versus 2009 Actual

Corporate support costs increase by $0.2M in the 2010 budget versus the 2009 actual costs. The increase is primarily due to economic increases, higher OEB costs related to the rate application and an increase in spending for pandemic supplies. These increases are partly offset by savings in Information Technology support costs as a result of a renegotiated outsourcing agreement with NHSS, a decrease in the labour burden rate and planned cost reduction initiatives.

4.0 PERIOD-OVER-PERIOD CHANGES - HISTORICAL PERIOD, REGULATED HYDROELECTRIC

Exhibit F3-T1-S2 Table 1 provides the period-over-period changes for the historical period.

2009 Actual versus 2009 Budget

For 2009, the actual corporate support costs decreased by $4.0M as compared to the budget primarily due to lower costs related to Information Technology special initiatives, lower OEB-related costs due to a decision to defer the rate application, and efforts to manage staff vacancies.

2009 Actual versus 2008 Actual

Actual corporate support costs decreased by $1.4M in 2009 relative to 2008, primarily due to lower OEB costs and other corporate support groups cost reductions. The 2009 decrease was partly offset by general economic increases and by higher Information Technology costs as a result of one time credits in 2008.

2008 Actual versus 2008 Budget

Actual corporate support costs were $2.0M lower than budget in 2008, primarily due to lower costs related to Information Technology special initiatives, a number of one-time IT credit adjustments and hiring lags, partly offset by economic increases.

The one-time credit adjustments in Information Technology were the result of a change to just-in-time purchases of hardware and the finalization of the NHSS outsourcing contract gainshare (i.e., profit sharing credits for IT under the terms of the NHSS contract).

<u>2008 Actual versus 2007 Actual</u>

Corporate support costs increased by $4.4M in 2008 as compared to 2007, mainly due to higher OEB costs, economic increases, initiatives related to water safety, community and sponsorship advertising, the hydro boundary project and legal fees partly offset by the NHSS outsourcing agreement gainshare amount.

<u>2007 Actual versus 2007 Budget</u>

Corporate support costs were $1.4M lower than budget in 2007. The lower costs were mainly due to staff vacancies, lower outsourcing agreement gainshare, OEB-related activities and deferral of 2007 safety conference, partly offset by higher project OM&A (for infrastructure asset refresh work), support function review, and tax advisory costs.

5.0 PERIOD-OVER-PERIOD CHANGES - TEST PERIOD, NUCLEAR

Exhibit F3-T1-S2 Table 2 provides the period-over-period changes for the test period and bridge year. Corporate support costs remain stable over the bridge year and test period.

<u>2012 Plan versus 2011 Plan</u>

Corporate support costs increase by $3.1M for 2012 versus 2011, primarily due to the economic increases, a 53 week year and increased OEB costs in Regulatory Affairs and Law due to an expected rate application. This increase in costs was partly offset by planned cost savings initiatives across all corporate support groups.

Economic increases include changes in labour cost as per the collective agreements and planned increases in facility and utility costs. The various planned initiatives in corporate support groups have been reviewed during the annual business planning cycle.

<u>2011 Plan versus 2010 Budget</u>

Corporate support costs increase by $2.2M in 2011 compared to 2010 mainly due to economic increases partly offset by planned cost savings initiatives, lower OEB costs and lower spend on pandemic supplies.

6.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR, NUCLEAR

<u>2010 Budget versus 2009 Actual</u>

Corporate support costs increase by $12.5M in the 2010 budget relative to actual costs in 2009, primarily due to economic increases, higher OEB costs related to the rate application and increased spending for pandemic supplies, partly offset by savings in Information Technology support costs as a result of a renegotiated outsourcing agreement with NHSS, a decrease in the labour burden rate and planned cost savings initiatives.

7.0 PERIOD-OVER-PERIOD CHANGES - HISTORICAL PERIOD, NUCLEAR

Exhibit F3-T1-S2 Table 2 provides the period-over-period changes for the historical period.

<u>2009 Actual versus 2009 Budget</u>

Actual corporate support costs were $32.9M lower than budget in 2009, primarily due to lower OEB costs due to a decision to defer the rate application, lower advertising costs, lower costs in Information Technology related to special initiatives, and efforts to manage staff vacancies. The decreases were partially offset by higher Finance costs to support the nuclear business.

<u>2009 Actual versus 2008 Actual</u>

Actual corporate support costs decreased by $3.1M in 2009 relative to 2008, primarily due to lower OEB costs and corporate support groups cost reductions, partly offset by higher Information Technology costs (as a result of one-time credits in 2008), increased financial support to Nuclear projects, and economic increases.

<u>2008 Actual versus 2008 Budget</u>

Corporate support costs were $31.5M lower than budget in 2008, primarily due to lower costs in Corporate Affairs advertising and lower costs in Information Technology relating to special initiatives, a number of one-time IT credit adjustments and hiring lags. These were partly offset by economic increases.

The one-time credit adjustments in Information Technology related to a change to just-in-time purchases of hardware and the finalization of the NHSS outsourcing contract gainsharing.

<u>2008 Actual versus 2007 Actual</u>

Corporate support costs decreased by $3.1M in 2008 as compared to 2007, mainly due to the NHSS outsourcing agreement gainsharing and reduced furniture and equipment purchases. This decrease was partly offset by economic increases, higher OEB costs and legal fees.

<u>2007 Actual versus 2007 Budget</u>

Corporate support costs were lower than budget by $9.8M in 2007. The lower costs were mainly due to staff vacancies, lower NHSS outsourcing agreement gainshare, lower OEB-related activities and deferral of 2007 safety conference, partly offset by higher project OM&A (for infrastructure asset refresh work), support function review, and tax advisory costs.

Numbers may not add due to rounding.

Table 1
Comparison of Allocation of Corporate Support & Administrative Costs ($M)
Regulated Hydroelectric

Line No.	Corporate Group	2007 Budget	(c)-(a) Change	2007 Actual	(e)-(c) Change	2008 Actual	(e)-(g) Change	2008 Budget
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	**Business Services & IT[1]**	8.8	(0.3)	8.5	1.5	10.0	(1.5)	11.5
2	**Finance[2]**	4.7	(0.1)	4.6	0.3	4.9	(0.6)	5.5
3	**Human Resources**	2.4	(0.2)	2.2	0.1	2.3	(0.1)	2.4
4	**Corporate Affairs**	5.4	(0.5)	4.9	2.4	7.3	0.5	6.8
6	**Corporate Centre[3]**	2.0	(0.3)	1.7	0.1	1.8	(0.3)	2.1
7	**Total**	23.3	(1.4)	21.9	4.4	26.3	(2.0)	28.3

Line No.	Corporate Group	2008 Actual	(c)-(a) Change	2009 Actual	(c)-(e) Change	2009 Budget
		(a)	(b)	(c)	(d)	(e)
8	**Business Services & IT[1]**	10.0	0.6	10.6	(0.7)	11.3
9	**Finance[2]**	4.9	(0.6)	4.3	(1.6)	5.9
10	**Human Resources**	2.3	0.0	2.3	(0.2)	2.5
11	**Corporate Affairs**	7.3	(0.8)	6.5	(0.4)	6.9
13	**Corporate Centre[3]**	1.8	(0.6)	1.2	(1.1)	2.3
14	**Total**	26.3	(1.4)	24.9	(4.0)	28.9

Line No.	Corporate Group	2009 Actual	(c)-(a) Change	2010 Budget	(e)-(c) Change	2011 Plan	(g)-(e) Change	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
15	**Business Services & IT[1]**	10.6	(1.4)	9.2	0.3	9.5	0.0	9.5
16	**Finance[2]**	4.3	(0.8)	3.5	0.2	3.7	0.0	3.7
17	**Human Resources**	2.3	(0.1)	2.2	0.1	2.3	0.0	2.3
18	**Corporate Affairs**	6.5	1.8	8.3	(0.6)	7.7	1.0	8.7
20	**Corporate Centre[3]**	1.2	0.7	1.9	(0.3)	1.6	0.5	2.1
21	**Total**	24.9	0.2	25.1	(0.3)	24.8	1.5	26.3

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Corporate Supply Chain transferred to BS&IT.
3 Corporate Centre includes Executive Office, Corporate Secretary, Corporate Business Development, and Law.

Numbers may not add due to rounding.

Table 2
Comparison of Allocation of Corporate Support & Administrative Costs ($M)
Nuclear

Line No.	Corporate Group	2007 Budget	(c)-(a) Change	2007 Actual	(e)-(c) Change	2008 Actual	(e)-(g) Change	2008 Budget
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	**Business Services & IT[1]**	151.3	(4.7)	146.6	(8.7)	137.9	(21.3)	159.2
2	**Finance[2]**	32.1	(0.1)	32.0	0.1	32.1	(3.0)	35.1
3	**Human Resources**	38.9	(2.6)	36.3	0.2	36.5	0.2	36.3
4	**Corporate Affairs**	15.8	(1.2)	14.6	3.6	18.2	(7.5)	25.7
5	**Corporate Centre[3]**	12.4	(1.2)	11.2	1.7	12.9	0.1	12.8
6	**Total**	250.5	(9.8)	240.7	(3.1)	237.6	(31.5)	269.1

Line No.	Corporate Group	2008 Actual	(c)-(a) Change	2009 Actual	(c)-(e) Change	2009 Budget
		(a)	(b)	(c)	(d)	(e)
7	**Business Services & IT[1]**	137.9	(0.8)	137.1	(20.7)	157.8
8	**Finance[2]**	32.1	3.2	35.3	0.3	35.0
9	**Human Resources**	36.5	(0.2)	36.3	(0.6)	36.9
10	**Corporate Affairs**	18.2	(3.0)	15.2	(10.1)	25.3
11	**Corporate Centre[3]**	12.9	(2.3)	10.6	(1.8)	12.4
12	**Total**	237.6	(3.1)	234.5	(32.9)	267.4

Line No.	Corporate Group	2009 Actual	(c)-(a) Change	2010 Budget	(e)-(c) Change	2011 Plan	(g)-(e) Change	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
13	**Business Services & IT[1]**	137.1	4.6	141.7	2.6	144.3	(0.1)	144.2
14	**Finance[2]**	35.3	0.3	35.6	0.2	35.8	0.2	36.0
15	**Human Resources**	36.3	0.0	36.3	0.8	37.1	0.5	37.6
16	**Corporate Affairs**	15.2	5.8	21.0	(1.9)	19.1	1.5	20.6
17	**Corporate Centre[3]**	10.6	1.8	12.4	0.5	12.9	1.0	13.9
18	**Total**	234.5	12.5	247.0	2.2	249.2	3.1	252.3

Notes:
1 Formerly Chief Information Office (CIO) including Real Estate and Corporate Supply Chain.
2 Corporate Supply Chain transferred to BS&IT.
3 Corporate Centre includes Executive Office, Corporate Secretary, Corporate Business Development, and Law.

ASSET SERVICE FEES

1.0 PURPOSE

This evidence describes OPG's service fee methodology and explains the calculation of the proposed service fees for the test period.

2.0 BACKGROUND

Approximately 98 per cent of OPG's in-service fixed assets are directly associated with specific generation facilities. The remaining assets are either directly associated with a business unit, or are held centrally and are used by both regulated and unregulated generation facilities. The assets held centrally are not included in rate base and the depreciation and amortization expense in this rate submission does not include any depreciation or amortization related to these assets. Instead, the regulated facilities (as well as unregulated facilities) are charged a service fee for the use of these assets, which is included in their respective OM&A expenses in this Application. The basis for the apportionment of the service fee to the regulated facilities is described below for each type of centrally-held asset. The service fee methodology used in this Application is the same as that approved by the OEB in EB-2007-0905. Ex. F3-T2-S1 Tables 1 and 2 present asset service fee amounts charged or expected to be charged to regulated hydroelectric and nuclear facilities for years 2007 to 2012.

3.0 SERVICE FEE METHODOLOGY

Service fees are computed in a cost-based manner. The costs included in the computation of the service fees are depreciation expense, certain operating costs, property taxes, and a tax-adjusted return earned on these assets.

The regulated facilities are charged a service fee for the use of the following assets, which are further discussed below:

- OPG Head Office (located in Toronto, Ontario)
- Kipling Site Building Complex (located in Toronto, Ontario)
- Wesleyville (located in Durham County, Ontario)

- Certain shared IT and Energy Markets Assets (together "IT Assets")

The charts below provide budgeted service fee amounts by asset and by regulated business for the years ending December 31, 2011 and 2012.

Chart 1
Asset Service Fee Amounts – 2011

2011				
$M	**OPG Head Office**	**Kipling/Wesleyville**	**IT Assets**	**Total**
Nuclear	8.2	4.8	11.0	24.0
Regulated Hydroelectric	1.0	0.5	0.6	2.1
Total	9.2	5.3	11.6	26.1

Chart 2
Asset Service Fee Amounts – 2012

2012				
$M	**OPG Head Office**	**Kipling/Wesleyville**	**IT Assets**	**Total**
Nuclear	8.4	4.8	10.2	23.4
Regulated Hydroelectric	1.0	0.5	0.6	2.1
Total	9.4	5.3	10.8	25.5

OPG Head Office

OPG's Head Office (occupying several floors at 700 University Ave.) is partially used by personnel from the regulated business units and corporate functions that support them. The service fee for the use of OPG's Head Office is computed based on an allocation of depreciation expense, operating costs related to maintaining the building, property taxes, and a tax-adjusted return on the capital invested in these assets. The cost allocation is based on the principles of OPG's corporate cost allocation methodology discussed in Ex. F3-T1-S1. Depreciation expense and property tax expense, as per OPG's budget for the year, are apportioned based on the relative square footage used by the regulated operations, including an amount for the corporate functions supporting them. As per the cost allocation methodology, operating costs incurred by Real Estate to maintain the building are apportioned based on the relative square footage used by the regulated operations, including an amount for the corporate functions supporting them.

The return on capital amounts for 2011 and 2012 are computed using after-tax rates of return which are consistent with the proposed weighted average cost of capital rates for the regulated operations as per Exhibit C. The return on equity component is grossed-up by OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is applied to the average budgeted net book value of the building for the year, and then apportioned to each of the regulated facilities using relative square footage which is consistent with the allocation basis used to determine the depreciation expense in the Asset User Fee.

The components used to establish the projected service fee for OPG's Head Office for the years ending December 31, 2011 and 2012, respectively, are presented below:

Chart 3

Components of Asset Service Fee for OPG's Head Office – 2011

2011			
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	1.3	0.2	1.5
Property Tax	1.7	0.2	1.9
Operating Costs	3.1	0.3	3.4
Tax-adjusted Return	2.1	0.3	2.4
Total	8.2	1.0	9.2

Chart 4

Components of Asset Service Fee for OPG's Head Office – 2012

2012			
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	1.5	0.2	1.7
Property Tax	1.8	0.2	2.0
Operating Costs	3.1	0.3	3.4
Tax-adjusted Return	2.0	0.3	2.3
Total	8.4	1.0	9.4

Kipling/Wesleyville

OPG's Kipling and Wesleyville sites are partially used by personnel from the regulated operations and corporate functions that support them. The service fee for the use of Kipling and Wesleyville by the regulated hydroelectric and nuclear business units is computed in the same manner as that used for the OPG Head Office. The same components (i.e., depreciation, property tax, operating costs, and the tax-adjusted return) are apportioned based on relative square footage.

The components used to establish the projected service fee for Kipling and Wesleyville for the years ending December 31, 2011 and 2012, respectively, are presented below:

Chart 5

Components of Asset Service Fee for Kipling/Wesleyville – 2011

	2011		
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	0.2	0.0	0.2
Property Tax	0.5	0.0	0.5
Operating Costs	3.3	0.4	3.7
Tax-adjusted Return	0.8	0.1	0.9
Total	4.8	0.5	5.3

Chart 6

Components of Asset Service Fee for Kipling/Wesleyville – 2012

	2012		
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	0.2	0.0	0.2
Property Tax	0.5	0.0	0.5
Operating Costs	3.3	0.4	3.7
Tax-adjusted Return	0.8	0.1	0.9
Total	4.8	0.5	5.3

IT Assets

IT assets include computer systems and applications used throughout OPG, such as SAP and other enterprise resource planning systems, document management and archiving systems, computer network hardware and the remote access system, as well as, information technology systems, applications and infrastructure related to generation portfolio management, trading and origination activities, and related administrative functions such as transaction settlements. These assets are used by personnel from the regulated operations and the corporate functions that support them. The service fee for the use of IT assets is computed based on an appropriate portion of depreciation expense and a tax-adjusted return. The portion of the costs included in the service fee is based on the principles of OPG's corporate cost allocation methodology discussed in Ex. F3-T1-S1. For the majority of IT assets, depreciation expense, as per OPG's budget for the year, is apportioned using the relative number of business workstations used by the regulated operations and the portion of corporate functions that support them.

The return on capital amounts for 2011 and 2012 are computed using the proposed weighted average cost of capital rates for the regulated operations as per Exhibit C. The return on equity component is grossed-up by OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is applied to the average budgeted net book value of the assets for the year apportioned using the relative number of business workstations used by the regulated facilities and the portion of corporate functions that support them. This is consistent with the allocation basis used to determine depreciation expense portion of the Asset User Fee.

The components used to establish the service fee for IT Assets for the years ending December 31, 2011 and 2012, respectively, are presented below:

Chart 7

Components of Asset Service Fee for IT Assets – 2011

2011			
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	7.7	0.4	8.1
Tax-adjusted Return	3.3	0.2	3.5
Total	11.0	0.6	11.6

Chart 8

Components of Asset Service Fee for IT Assets – 2012

2012			
$M	**Nuclear**	**Regulated Hydroelectric**	**Total**
Depreciation Expense	6.8	0.4	7.2
Tax-adjusted Return	3.4	0.2	3.6
Total	10.2	0.6	10.8

Numbers may not add due to rounding.

Table 1
Asset Service Fees - Regulated Hydroelectric ($M)

Line No.	Business Unit	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Regulated Hydroelectric**	2.3	2.5	2.6	2.0	2.1	2.0

Numbers may not add due to rounding.

Table 2
Asset Service Fees - Nuclear ($M)

Line No.	Business Unit	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)
1	**Nuclear**	33.2	28.8	27.2	24.6	24.1	23.7

COMPARISON OF ASSET SERVICE FEES

1.0 PURPOSE

This evidence presents the period-over-period changes in the asset service fees charged to the regulated hydroelectric and nuclear business units.

2.0 OVERVIEW

This evidence supports the approvals sought for asset service fees. Ex. F3-T2-S2, Table 1 sets out a comparison of budget to actual amounts and the year-over-year asset service fee costs for 2007 - 2012 for the regulated hydroelectric business unit. As can be seen from this table, the asset service fee charged in 2010 is lower than in the previous years and the fee remains relatively stable over the 2010 - 2012 period. Because the variances in the asset service fees charged to the regulated hydroelectric business unit are not material, they are not discussed in the variance analysis below.

As shown in Ex. F3-T2-S2 Table 2, the asset service fees for nuclear are flat over the 2010 - 2012 period. The slight decrease in 2011 and 2012 is primarily due to lower than expected purchases of information technology ("IT") assets as compared to the prior years.

3.0 PERIOD-OVER-PERIOD CHANGES – TEST PERIOD

<u>2012 Plan versus 2011 Plan</u>

The asset service fee for the nuclear business unit in 2012 is slightly lower than the amount charged in 2011.

<u>2011 Plan versus 2010 Budget</u>

The asset service fee charged to the nuclear business unit is slightly lower than the amount charged in 2010.

4.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR

<u>2010 Budget versus 2009 Actual</u>

The 2010 budget asset service fee for the nuclear business unit was $2.6M lower than 2009 actual due to lower IT depreciation expense as a result of a declining asset base, partly offset by the change in the return on equity incorporated into the fee, from 8.65 per cent to 9.85 per cent.

5.0 PERIOD-OVER-PERIOD CHANGES – HISTORICAL PERIOD

2009 Actual versus 2009 Budget

The actual asset service fee charged to the nuclear business unit was $1.7M greater than budget due to higher IT asset depreciation expense.

2009 Actual versus 2008 Actual

The actual asset service fee charged to the regulated operations in 2008 was $1.6M greater than the actual amount charged in 2009.

2008 Actual versus 2008 Budget

The actual asset service fee charged to the nuclear business unit was $1.1M less than budget due to lower IT asset depreciation expense.

2008 Actual versus 2007 Actual

The actual asset service fee charged in 2007 to the regulated operations was $4.4M greater than 2008 due to higher IT asset depreciation expense.

2007 Actual versus 2007 Budget

The actual asset service fee charged to the regulated operations was $4.1M greater than budget due to higher IT asset depreciation expense of $4.9M, partially offset by lower than planned operating expenses of $0.8M resulting from lower utility costs and reduced furniture expenditures at OPG’s Head Office. The higher IT asset depreciation expense was a result of an increase in assets placed in service during 2007.

Numbers may not add due to rounding.

Table 1
Comparison of Asset Service Fees - Regulated Hydroelectric ($M)

Line No.	Business Unit	2007 Budget	(c)-(a) Change	2007 Actual	(e)-(c) Change	2008 Actual	(e)-(g) Change	2008 Budget
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	**Regulated Hydroelectric**	2.4	(0.0)	2.3	0.1	2.5	(0.0)	2.5

Line No.	Business Unit	2008 Actual	(c)-(a) Change	2009 Actual	(c)-(e) Change	2009 Budget
		(a)	(b)	(c)	(d)	(e)
2	**Regulated Hydroelectric**	2.5	0.1	2.6	0.5	2.1

Line No.	Business Unit	2009 Actual	(c)-(a) Change	2010 Budget	(e)-(c) Change	2011 Plan	(g)-(e) Change	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
3	**Regulated Hydroelectric**	2.6	(0.6)	2.0	0.1	2.1	(0.1)	2.0

Numbers may not add due to rounding.

Table 2
Comparison of Asset Service Fees - Nuclear ($M)

Line No.	Business Unit	2007 Budget	(c)-(a) Change	2007 Actual	(e)-(c) Change	2008 Actual	(e)-(g) Change	2008 Budget
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	**Nuclear**	29.1	4.1	33.2	(4.4)	28.8	(1.1)	29.9

Line No.	Business Unit	2008 Actual	(c)-(a) Change	2009 Actual	(c)-(e) Change	2009 Budget
		(a)	(b)	(c)	(d)	(e)
2	**Nuclear**	28.8	(1.6)	27.2	1.7	25.5

Line No.	Business Unit	2009 Actual	(c)-(a) Change	2010 Budget	(e)-(c) Change	2011 Plan	(g)-(e) Change	2012 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
3	**Nuclear**	27.2	(2.6)	24.6	(0.5)	24.1	(0.4)	23.7

OPG PROCUREMENT PROCESS

1.0 PURPOSE

This evidence provides an overview of OPG's procurement process. It provides support for the OM&A purchased services information presented for each of regulated hydroelectric (Ex. F1-T5-S1), nuclear (Ex. F2-T6-S1), and corporate groups (Ex. F3-T3-S2).

2.0 OVERVIEW OF PROCUREMENT PROCESS

OPG's procurement process is conducted as follows[1]:

- The need for a service or item is identified and a requisition is created and approved by the appropriate requisitioning authority as per OPG's Organizational Authority Register ("OAR"). The OAR is provided at Ex. A2-T2-S1 Attachment 2.
- If no existing agreement is in place that can satisfy the need for the service or item, the procurement units of nuclear, hydroelectric or corporate, as applicable (collectively referred to as Supply Chain), in consultation with the requisitioner, seeks quotations[2] or proposals[3] using the following methods:
  - o Invitational Competitive Process - this process uses the request for quotation or request for proposal ("RFQ/RFP") process as applicable. For the procurements of goods and services (both consulting and non-consulting), a request to submit a written quotation/proposal in response to OPG requirements is made to a minimum of three qualified suppliers.
  - o Open Competitive Process - this process involves posting procurement documents using an approved OPG electronic tendering system. All consulting contracts with a procurement value greater than or equal to $100k must be conducted through the open competitive process.

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[1] This process applies to the acquisition of services or items above a threshold value of $10,000. Below this threshold value, purchasing authority is delegated to the businesses through the use of a purchasing card or local purchasing authority (purchase order-based transactions).

[2] A request for quotation ("RFQ") is a request for price and availability of items/services based on specified technical, quality, and commercial requirements where the value is estimated up to $100k.

[3] A request for proposal ("RFP") is a formal request for price and availability of an item and/or service based on specified technical quality and commercial requirements where the value is estimated to be greater than $100k.

   - Single Source Process - exceptions to a competitive procurement process are allowed when it is not possible and/or is impractical to obtain the required items or service through normal competitive procurement methods. Exceptions must be justified and prior approval from the appropriate purchasing authority (according to the OAR) must be granted when a single source strategy is used.
- OPG's RFQ/RFP process requires that the evaluation criteria and weightings be established by Supply Chain and the requisitioner/project manager in advance of issuing the RFQ/RFP. The criteria, weightings and evaluation methodology (the process used to assess, evaluate and score supplier proposal) are fully disclosed to proponents in the RFQ/RFP and typically include the following:
   - Mandatory requirements are criteria that are assessed on a pass/fail basis.
   - Rated requirements, including all weights and sub-weights and a description of any short-listing processes including any minimum rated score requirements and the role and weighting, if applicable, of reference checks, oral interviews, demonstrations and site visits.
   - Price/cost and a description of the evaluation methodology that may include the use of scenarios to determine cost for specific volumes and service levels. The evaluation of price/cost occurs only if mandatory and minimum rated requirements are met.
- For services performed on OPG premises, potential suppliers are pre-qualified with respect to safety performance.
- To ensure the integrity of the procurement process, Supply Chain acts as the single point of contact with potential suppliers until the evaluation of proposals or quotations is complete and a supplier has been selected. Cost is one of the criteria used in evaluating proposals or quotations; however, the relative weighting of the selection criteria varies and there may be instances when the lowest cost supplier is not selected.
- Negotiation and finalization of the purchase order and/or agreement terms is led by Supply Chain with support from the requisitioner as required. An agreement and/or purchase order will be issued once Supply Chain receives a requisition approved by the appropriate OAR authority. In some areas, master agreements have been developed with certain suppliers to shorten the procurement time for services and items through pre-negotiated terms, conditions and rates. In other areas, OPG has established master

agreements with more than one supplier for the same type of service under similar terms and conditions. This creates a competitive environment where the suppliers under the master agreement competitively bid each work package thus ensuring OPG receives the best value.

- Once the supplier is awarded business, an OPG contract administrator monitors the contract to ensure the supplier meets all contractual obligations, confirms receipt of the item or service, and approves submitted invoices for payment. The performance of the supplier is assessed by the contract administrator and Supply Chain and this assessment is considered when selecting proponents for future work.
- The requisitioner notifies Supply Chain once the contract requirements are complete and final payment has been made. The purchase order is subsequently closed out by Supply Chain.

This process is applicable to all OPG businesses; however, there are additional quality assurance requirements in the nuclear procurement process.

In June 2009, OPG implemented the Province's direction regarding the non-reimbursement of consultant hospitality, food or incidental expenses and has sought to extend these limitations to all service providers where possible.

Following receipt of the Management Board of Cabinet's Procurement Directive of July 2009, OPG has revised its procurement-related governance. Staff training on new procurement rules and processes was completed in Q4 2009. OPG's policies, processes and practices are consistent with the Procurement Directive's principles and requirements.

OM&A PURCHASED SERVICES - CORPORATE

1.0 PURPOSE

This evidence presents the purchases of OM&A services and products by the corporate groups that meet the threshold in the OEB filing guidelines of 1 per cent of the total OM&A expense before taxes.

2.0 OVERVIEW

An overview of OPG's procurement process is presented in Ex. F3-T3-S1. For the corporate groups, the threshold of 1 per cent of the total OM&A expense before taxes is approximately $5M.

Information on vendor contracts for OM&A purchased services by the corporate groups that are equal to or in excess of $5M for any of the years 2007, 2008 and 2009 are presented in Chart 1. The information presented is the total value of the contracts for the corporate group and not an allocation to the regulated facilities.

Chart 1
Purchased Services – Corporate OM&A Contracts

Vendor Name	Description/ Nature of Activities	Procurement Process	
		Competitive	**Single Source**
New Horizons System Solution	Provide OPG with information technology services as specified in F3-T1-S1.	✓ Until October 1, 2009	✓ Leveraged renegotiation after October 1, 2009
CCSI Technology Solutions Corp.	Servers, laptops, personal computers and peripherals purchases.	✓	
ARI Financial Services Inc.	Transport and work equipment leasing.	✓	
Partners and Edell	Responsible for creating all advertising on behalf of OPG, including the water safety public awareness campaign.	✓	

Total 2007 spend ($M) = $135
Total 2008 spend ($M) = $133
Total 2009 spend ($M) = $143