COMPARISON OF CENTRALLY HELD COSTS

1.0 PURPOSE

This evidence presents the period-over-period comparisons of centrally held costs that are directly assigned and allocated to the regulated hydroelectric and nuclear facilities.

1.1 Overview

This evidence supports the approval sought for the centrally held costs included in the regulated hydroelectric and nuclear revenue requirements. Exhibit F4-T4-S2 Table 1 and Ex. F4-T4-S2 Table 2 provide the detail on the period-over-period comparisons for the historical, bridge and test periods.

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

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

Centrally held costs attributed to regulated hydroelectric are expected to increase by $2.6M in 2012 relative to 2011. This increase is mainly due to higher pension and other post employment benefits ("OPEB") related costs. The increase in these costs is primarily due to the expected net growth. The expected net growth includes an increase in current service costs and higher interest costs on a higher benefit obligation and the impact of certain gains and losses being reflected in the asset value as a result of using market-related values and the consequent impact on the earnings on the registered pension plan assets. As well, the IESO non-energy charges are expected to increase due to higher forecast Global Adjustment charges, while the fiscal calendar adjustment is expected to decrease. The decrease in the fiscal calendar adjustment is because the fiscal year for payroll purposes is four days longer than the financial year in 2012, as compared to nil days in 2011.

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

Centrally held costs attributed to regulated hydroelectric are expected to increase by $2.6M in 2011 relative to 2010. This increase is mainly due to higher pension and OPEB-related costs and higher IESO non-energy charges. Pension and OPEB-related costs are expected

to increase primarily due to the expected net growth. IESO non-energy charges are expected to increase because of higher forecast costs associated with the Global Adjustment. The fiscal calendar adjustment is nil in 2011 because OPG's fiscal year for payroll purposes coincides with OPG's financial year.

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

2010 Budget versus 2009 Actual

Centrally held costs attributed to regulated hydroelectric are expected to increase by $2.9M, mainly as a result of higher pension and OPEB-related costs in 2010. These costs are higher chiefly due to the change in the assumptions in the discount rates from 7.5 per cent for both pension and OPEB-related costs to 6.8 per cent for pension and 7.0 per cent for OPEB-related costs, the expected net growth, and the lower amounts of pension and OPEB-related costs being charged to business units via payroll burden. This increase is partially offset by lower forecast IESO non-energy charges due to an expected decrease in the Global Adjustment charge attributable to an expected strengthening of market prices in 2010, and lower other centrally held costs associated with business claims incurred in 2009 that are not expected to reoccur in 2010.

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

2009 Actual versus 2009 Budget

Actual centrally held costs attributed to regulated hydroelectric were $0.5M lower than budget, with higher IESO non-energy charges being largely offset by lower pension and OPEB-related costs. IESO non-energy charges were higher chiefly due to substantially higher costs associated with the Global Adjustment. Pension and OPEB-related costs were lower than budget mainly as a result of the changes in the assumptions in the discount rate (from 5.6 per cent to 7.5 per cent) and the inflation rate (from 2.25 per cent to 2.0 per cent), and the change in health care cost trend assumptions. This was partially offset by the change in demographic assumptions and lower than forecast 2008 year-end pension fund

asset values. Other centrally held costs were also lower in 2009 mainly due to lower than budgeted environmental costs, slightly offset by higher business claims.

2009 Actual versus 2008 Actual

Centrally held costs attributed to regulated hydroelectric were $2.8M higher in 2009 than in 2008. This is primarily as a result of higher IESO non-energy charges, partly offset by lower pension and OPEB-related costs. IESO non-energy charges were higher because of higher costs associated with most types of charges, primarily the Global Adjustment. Pension and OPEB-related costs were lower mainly as a result of the changes in the assumptions in the discount rate (from 5.6 per cent to 7.5 per cent) and the inflation rate (from 2.25 per cent to 2.0 per cent), and the change in the health care cost trend assumptions. This was partially offset by the change in demographic assumptions, the loss on the pension fund assets in 2008, and the lower amounts of pension and OPEB-related costs being charged to business units via payroll burden. As well, other centrally held costs were higher in 2009 chiefly due to non-recurring business claims.

2008 Actual versus 2008 Budget

Actual centrally held costs attributed to regulated hydroelectric were lower than budget by $4.6M mainly due to lower pension and OPEB-related costs, lower IESO non-energy charges, and budgeted environmental charges that were not incurred. Pension and OPEB-related costs were lower than budget mainly as a result of 2007 year-end pension fund asset values being higher than budgeted and actual 2008 long-term disability claims experience. IESO non-energy charges were also lower than budget as a result of a higher OPG Rebate coupled with lower Global Adjustment charges.

2008 Actual versus 2007 Actual

Centrally held costs attributed to regulated hydroelectric were lower in 2008 by $1.5M mainly due to lower pension and OPEB-related costs, which were partly offset by higher IESO non-energy charges. Pension and OPEB-related costs decreased mainly due to the change in assumptions in the discount rate from 5.25 per cent to 5.6 per cent and the expected net growth, partially offset by the change in the inflation rate assumption from 2.0 per cent to

2.25 per cent. IESO non-energy charges were higher largely because of a higher Global Adjustment and other non-energy charges, partially offset by a higher OPG Rebate. Other centrally held costs were also lower, with the most significant single cause being one-time legal costs incurred in 2007.

2007 Actual versus 2007 Budget

Actual centrally held costs attributed to regulated hydroelectric were lower than budget by $6.7M mainly due to lower pension and OPEB-related costs, lower IESO non-energy charges and a largely unspent centrally held contingency for unforeseen events and OEB-related activities. (Centrally held costs assigned and allocated to the regulated business do not include any contingencies for unforeseen events in the 2008 - 2012 period.) Pension and OPEB-related costs were lower than budget mainly due to a change in the discount rate from 5.0 per cent to 5.25 per cent.

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

2012 Plan versus 2011 Plan

Centrally held costs attributed to nuclear are expected to increase by $35.3M primarily as a result of higher pension and OPEB-related costs and higher costs associated with the nuclear insurance program, partially offset by a decrease in the fiscal calendar adjustment. The expected increase in pension and OPEB-related costs is primarily due to the expected net growth. The forecast nuclear insurance costs are higher primarily due to the increase in nuclear liability insurance requirements by the federal government. IESO non-energy charges are also expected to be higher due to higher forecast Global Adjustment charges. The fiscal calendar adjustment decreases because OPG's fiscal year for payroll purposes is four days longer than its financial year, as compared to nil days in 2011.

2011 Plan versus 2010 Budget

Centrally held costs attributed to nuclear are expected to increase by $28.0M primarily as a result of higher pension and OPEB-related costs. These costs are expected to increase mainly because of the expected net growth. The forecast costs of the nuclear insurance program are also expected to increase mainly due to costs resulting from higher nuclear

liability insurance requirements following an expected change in federal legislation. IESO non-energy charges are also forecast to be higher due to higher forecast costs associated with the Global Adjustment. The fiscal calendar adjustment is nil in 2011 because OPG's fiscal year for payroll purposes coincides with OPG's financial year.

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

2010 Budget versus 2009 Actual

Centrally held costs attributed to nuclear are expected to increase by $112.2M primarily as a result of higher pension and OPEB-related costs, a lower amount of Scientific Research and Experimental Development ("SR&ED") investment tax credits and a higher Ontario Nuclear Funds Agreement ("ONFA") guarantee fee, partially offset by lower IESO non-energy charges and other centrally held costs. Pension and OPEB-related costs are expected to increase primarily because of the change in the assumptions in the discount rates from 7.5 per cent for both pension and other post retirement benefits to 6.8 per cent for pension and 7.0 per cent for other post retirement benefits, the expected net growth, and the lower amounts of pension and OPEB costs being charged to business units via payroll burden. The amount of SR&ED investment tax credits forecast to be recognized in 2010 is lower because the amount recognized in 2009 related to two taxation years (2009 and 2008), whereas the amount in 2010 relates to one taxation year (2010). The ONFA guarantee fee is expected to increase as a result of an expected increase in the amount of the guarantee from $760M to $1,545M. IESO non-energy charges are expected to be lower due to an expected decrease in the Global Adjustment charge attributable to an expected strengthening of market prices in 2010. Other centrally held costs are expected to be lower mainly due to non-recurring business claims incurred in 2009.

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

2009 Actual versus 2009 Budget

Actual centrally held costs attributed to nuclear were lower than budget by $107.6M in 2009 primarily as a result of lower actual pension and OPEB-related costs and SR&ED investment tax credits that were not forecast to be recognized. These items were partly offset by higher IESO non-energy charges and higher other centrally held costs. Pension and OPEB-related

costs were lower mainly as a result of changes in the assumptions in the discount rate (from 5.6 per cent to 7.5 per cent) and the inflation rate (from 2.25 per cent to 2.0 per cent), and the change in the health care cost trend assumptions, partially offset by the change in demographic assumptions and lower-than-forecast 2008 year-end pension fund asset values. IESO non-energy charges were higher chiefly because of substantially higher costs associated with the Global Adjustment. Other centrally held costs were higher chiefly due to non-recurring business claims.

2009 Actual versus 2008 Actual

Centrally held costs attributed to nuclear were lower by $73.4M in 2009 due largely to lower pension and OPEB-related costs, partly offset by higher IESO non-energy charges, lower SR&ED investment tax credits and higher other centrally held costs. Pension and OPEB-related costs were significantly lower in 2009 mainly as a result of the changes in the assumptions in the discount rate (from 5.6 per cent to 7.5 per cent) and the inflation rate (from 2.25 per cent to 2.0 per cent), and the change in the health care cost trend assumptions. These were partially offset by the change in demographic assumptions, the loss on the pension fund assets in 2008, and the lower amounts of pension and OPEB costs being charged to business units via payroll burden. IESO non-energy charges were higher chiefly because of higher costs associated with the Global Adjustment. SR&ED investment tax credits were lower in 2009 primarily because the credits recognized in 2008 related to a number of prior years whereas the 2009 amount related to the 2009 and 2008 taxation years only. Other centrally held costs were higher mainly due to non-recurring business claims incurred in 2009.

2008 Actual versus 2008 Budget

Actual centrally held costs attributed to nuclear were lower than budget in 2008 by $59.7M primarily as a result of lower actual pension and OPEB-related costs and SR&ED investment tax credits that were not forecast to be recognized. Pension and OPEB-related costs were lower mainly as a result of 2007 year-end pension fund asset values being higher than budgeted and actual 2008 long-term disability claims experience. IESO non-energy charges

were also lower than budget as a result of a higher OPG Rebate coupled with lower Global Adjustment charges.

2008 Actual versus 2007 Actual

Centrally held costs attributed to nuclear were lower in 2008 by $78M mainly due to lower pension and OPEB-related costs and higher SR&ED investment tax credits. Pension and OPEB-related costs decreased mainly due to the change in assumptions in the discount rate from 5.25 per cent to 5.6 per cent and the expected net growth, partially offset by the change in the inflation rate assumption from 2.0 per cent to 2.25 per cent. No SR&ED investment tax credits were recognized in 2007. A lower ONFA guarantee fee in 2008 as a result of a reduction in the amount of the guarantee provided by the Province to the Canadian Nuclear Safety Commission ("CNSC") from $1,510M to $760M and non-recurring environmental charges incurred in 2007, partly offset by a higher fiscal calendar adjustment, also contributed to lower centrally held costs attributed to nuclear in 2008 than in 2007. IESO non-energy charges were slightly higher due to higher Global Adjustment charges partially offset by a higher rebate and a slight decline in other non-energy charges.

2007 Actual versus 2007 Budget

Actual centrally held costs attributed to nuclear were lower than budget by $52.4M mainly due to lower pension and OPEB-related costs, lower IESO non-energy charges and a largely unspent centrally held contingency for unforeseen events and OEB-related activities. (Centrally held costs assigned and allocated to the regulated business do not include any contingencies for unforeseen events for the 2008 - 2012 period.) Pension and OPEB-related costs were lower than budget mainly due to a change in the discount rate from 5.0 per cent to 5.25 per cent.