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BY E-MAIL

August 25, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Ontario Power Generation Inc.
2011-2012 Payment Amounts for Prescribed Generation Facilities
Board File Number EB-2010-0008

Please find enclosed one additional Board Staff technical conference question which relates to a response filed on August 17, 2010. Please forward this question to Ontario Power Generation Inc. and all other registered parties to this proceeding.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications & Regulatory Audit

August 25, 2010

Additional Board Staff Question for Technical Conference
Ontario Power Generation Inc.
2011-2012 Payment Amounts
EB-2010-0008
Non-Confidential

Issue 6.3
Is the test period Operations, Maintenance and Administration budget for the nuclear facilities appropriate?

41. Ref: ExhF2/Tab2/Sch1/p.1

As referenced in Board staff IR#45, the application notes on page 1 *"OPG has made significant operational and cost improvements which have been demonstrated since the previous application: Specifically: • 2012 base OM&A costs are to be forecast to be below 2008 actual costs, with cumulative work-driven cost savings of $260M for the 2010 - 2012 period; • 2012 regular staff levels are forecast below 2008 levels by 689 staff, while non-regular 17 staff FTEs ("full time equivalents") are reduced by 559".* In A1-T3- S1 (p.4) it notes that these reductions are due to the seven key initiatives as part of the 2010 - 2014 Nuclear Business Plan and other cost control measures explained in Ex. F2-T1-S1.

a) In (a) of OPG's response, OPG notes it is not possible to determine the savings that would have resulted regardless of the seven key initiatives and other cost control measures identified in this application. Based on the figures in the reproduced table in (c) under "Excluded from Total OM&A (line 9 above)", Board staff has calculated, in the absence of key initiatives and other cost control measures identified in the application, savings for 2010 – 2012 would have been $78.7 million (or $70 million excluding Discontinuation of Service Agreement with Bruce Power) as shown in the table below[1]. Please confirm these savings would have been realized in the absence of OPG's key initiatives and other cost control measures.

$ million

	2007 Actual	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan
Temporary Increase for Backlog Issues	$0.0	$0.0	-$9.3	-$9.8	-$7.4	$0.0
P2/P3 Isolation and Safe Storage	-$9.5	-$13.5	-$22.5	-$20.6	$0.0	$0.0
Darlington VBO - 2009	-$0.8	-$8.1	-$35.4	$0.0	$0.0	$0.0
Pickering VBO - 2010	$0.0	-$0.9	-$5.8	-$32.2	$0.0	$0.0
Discontinuation of Service Ageement with Bruce Power	$0.0	$0.0	$0.0	-$1.8	-$3.0	-$3.9
Sub-total (including Bruce Service Agreement)	**-$10.3**	**-$22.5**	**-$73.0**	**-$64.4**	**-$10.4**	**-$3.9**
Sub-total (excluding Bruce Service Agreement)	**-$10.3**	**-$22.5**	**-$73.0**	**-$62.6**	**-$7.4**	**$0.0**
Savings (2008-12: Temp Backlog increase, P2/P3, VBOs, Discontinue Bruce Service Agreement)						**-$174.2**
Savings (2008-12: Temp Backlog increase, P2/P3, VBOs)						**-$165.5**
Savings (2010-12: Temp Backlog increase, P2/P3, VBOs, Discontinue Bruce Service Agreement)						**-$78.7**
Savings (2010-12: Temp Backlog increase, P2/P3, VBOs)						**-$70.0**

[1] The savings associated with the Discontinuation of the Service Agreements with Bruce Power are from Note 4 of OPG's response.

b) In (b) of IR#45, it requested the estimated FTE and cost savings associated with each new initiative as well as each additional new cost saving measure OPG refers to in the application. OPG's response provided Table 1 showing OM&A savings associated with fleet-wide Initiatives and that amounted to a total of about $40.3M and OPG further noted the total net savings associated with additional new cost saving measures net of divisional "targeted reductions" and divisional "additional expenditures" are $36.3M in 2011 and $41.7M in 2012. Board staff has aggregated these figures as shown below and it amounts to $118.3M.

	$M
OM&A Savings Associated with Fleet-Wide Initiatives	$40.3
Divisional and local cost reduction measures (2011)	$36.3
Divisional and local cost reduction measures (2012)	$41.7
Total - Fleet-Wide Initiatives and Divisional/local cost reduction measures	**$118.3**

Please reconcile the total savings of $118.3M above associated with the new initiatives as well as the new cost saving measures OPG refers to in the application with the following statements in the application:

- In A1-T3- S1 (p.4), *"To help meet these targets, nuclear has developed seven key initiatives as part of the 2010 - 2014 Nuclear Business Plan (Ex. F2-T1-S1, Attachment 1).* ***Based on these initiatives and other cost control measures*** *explained in Ex. F2-T1-S1, OPG's 2010 - 2014 Nuclear Business Plan shows* ***more than $200M in OM&A cost savings in the test period****."* (emphasis added)

- In F2-T2-S1 (p.1), *"OPG has made significant operational and cost improvements which have been demonstrated since the previous application: Specifically: • 2012 base OM&A costs are to be forecast to be below 2008 actual costs, with* ***cumulative work-driven cost savings of $260M for the 2010 - 2012 period****;"* (emphasis added)

c) OPG's response also noted that, for a summary of FTE reductions over the test period, see Ex. F2-T1-S1, Attachment 1, page 19 which refers to OPG's Nuclear Business Plan.
   i) Page 19 of OPG's Nuclear Business Plan cannot be used to confirm OPG's claim in the application that was referenced in IR#45 *"• 2012 regular staff levels are forecast below 2008 levels by 689 staff, while non-regular 17 staff FTEs ("full time equivalents") are reduced by 559",* as the table does not include 2008. Board staff therefore referred to Table 13 in F2-T2-S1 (Staff Summary - Nuclear Operations) as it does include 2008. This table shows reductions of 689 and 559 as noted in the application. However, Board staff questions whether these figures represent staff or FTE reductions because it subtracts 2008 **Headcount** from 2012 **FTEs**. Subtracting Headcounts from FTEs is inappropriate as Headcount is always much higher than FTEs**.** Is OPG able to convert the Headcounts for 2008 and 2009 to FTEs to provide an appropriate comparison?

ii) Putting aside the matter of Headcount vs. FTEs, Exhibit F2-T1-S1 (Attachment 1, page 19) which OPG referred to in the response shows (under "Plan-Over-Plan Major Business Reason for Regular Staff Variance from BP 2009-2013") a cumulative reduction of 265 (2009 to 2012) and that 185 or 70% of that reduction is attributable to "Discontinuing Service Agreements with Bruce Power". Please confirm that Board staff has a correct understanding of the table on page 19 and the figures noted above are correct.

d) In (c) of IR#45, it requested that OPG reproduce Table 1 in F2-T1-S1 (Operating Costs Summary – Nuclear) up to Line #9 (Total OM&A) to exclude the costs associated with the extraordinary and/or non-recurring items identified in IR#45 (e.g., VBOs, P2/P3 Isolation, etc). Based on Board staff's review, it does not appear that this has been done. For example, the amounts associated with Base OM&A, Project OM&A and Outage OM&A all remain the same as Table 1 in F2-T1-S1 in the application. At the same time, a handful of figures have been adjusted associated with "Generation Development OM&A" (2009 and 2010) and "Allocation of Corporate Costs" (2009-2012).
   i) Please reproduce Table 1 in F2-T1-S1 as was requested (e.g., backing out VBO costs from Outage OM&A, P2/P3 Isolation from Project OM&A, etc.).
   ii) Please also explain why "Allocation of Corporate Costs" was adjusted and why "Generation Development OM&A" was *increased* by $20M in 2010 in the table reproduced by OPG.