

UNDERTAKING JT 1.8

Undertaking

To describe how rate impact is considered in company's business plan development.

Response

The development of OPG's business plan incorporates consideration of rate impacts through a focus on cost control. The need for effective cost control is taken into account at multiple stages in OPG's business planning process.

At the corporate level:

- OPG's business planning instructions (Ex. A2-T2-S1 Attachment 1) describe the external economic and financial situation facing Ontario and reinforce the need for all of OPG's business units to undertake effective cost control.
- When initial business unit plans are submitted in the fall, they are consolidated and a preliminary OPG-level financial outlook is assembled. This outlook identifies expected financial impacts on OPG as well as the implications for regulated rates for the business planning period. This information is one of the considerations used by senior management in reviewing the objectives, programs and expenditures put forward in these business unit plans.
- The Board of Directors are provided the rate implications for the planning period when they approve the final business plan.

At the business unit level:

- Business units are instructed to submit plans within the guidelines as noted above.
- Sustaining projects are prioritized within the project portfolios, as described in Exhibits D2-T1-S1 (Nuclear) and F1-T1-S1 (Hydroelectric)
- Value enhancing and discretionary projects are evaluated with respect to their expected impact on overall customer costs, by comparing the resulting cost impact using System Economic Values, which represent the marginal cost of electricity of in the province. If the project provides a positive NPV on this basis it will reduce overall customer costs. Thus, it can be the case that a project will increase OPG's electricity rates but will still provide a benefit to rate payers if incremental OPG electricity production displaces more expensive electricity.
- The assessment of business plans also takes into account the business planning objectives, the impacts on electricity production and/or other operational aspects, such as reliability safety, and environmental impact.

The results of OPG's efforts to control costs through its business planning process are as summarized in Mr. Mitchell's letter of June 24, 2010 to Minister Duguid (Ex. L-04-001 Attachment 2).

- "Since our last rate decision in 2008 OPG has been focused on finding additional cost efficiencies in its business. This has included a decision to advance the shut down of four coal fired units to October 2010, a one year deferral in filing our OEB rate application, and a much more aggressive approach to business planning. In fact,

1 OPG's business plan for 2010-2014 placed significant emphasis on reducing OM&A
2 expenses compared to the previous year's plan through aggressive target setting,
3 efficiencies and other cost reduction measures. As a result of those efforts, OPG has
4 removed in excess of \$600 million over the period 2010 to 2013.
5

- 6 • OPG's rate application is based on the 2010-2014 business plan and therefore
7 reflects a good portion of the \$600 million in savings mentioned above. For example,
8 the application presents OPG's use of benchmarking to support our cost control
9 activities and to drive performance improvement at our nuclear and hydroelectric
10 facilities. In nuclear, an extensive benchmarking effort has led to the development of
11 challenging five-year operational and financial performance targets. Based on
12 initiatives and other cost control measures developed in response to this
13 benchmarking activity, the application includes more than \$200 million in nuclear
14 OM&A cost savings in the rate period of 2011-2012.
15
- 16 • OPG's corporate groups have also embarked on significant cost saving initiatives.
17 Here we have been able to hold overall spending levels to an increase of just over
18 one percent per year on average over 2007-2012. One of the key contributors has
19 been our ability to control Information Technology costs. We have been able to
20 reduce our Information Technology costs by achieving lower service provider costs,
21 leveraging existing applications, and increasing the standardization and simplification
22 of our information technology environment.
23
- 24 • The rate application also includes expenditures related to the refurbishment of our
25 Darlington station and our plans to continue to operate the units at Pickering B. Both
26 of these initiatives are important in helping the Government achieve its objective of
27 providing the people of Ontario with a clean, reliable and cost effective supply of
28 electricity."
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