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September 13, 2010

VIA EMAIL AND RESS

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2010-0008 – Ontario Power Generation Inc. 2011-2012 Payment  
Amounts for Prescribed Facilities – Additional Technical Conference  
Question**

A Technical Conference for EB-2010-0008 was held on Thursday, August 26, 2010 and pursuant to Procedural Order No. 4, parties were requested to file a list of issues and questions for the Technical Conference by Thursday August 19, 2010.

On Wednesday August 25, 2010, OPG received a late Technical Conference question filed by Board Staff (Board Staff Technical Conference Question #41). Attachment 1 provides the response to Board Staff Technical Conference Question #41.

Sincerely,

[Original Signed By]

Barbara Reuber

Attach

cc: Charles Keizer, Tory's (email)  
Carlton D. Mathias, (email)  
EB-20010-0008 Intervenors (email)

**Attachment 1: Board Staff Technical Conference Question #041**

Ref: ExhF2/Tab2/Sch1/p.1

**Issue Number: 6.3**

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

**Question**

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<sup>1</sup>. 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
<u>Discontinuation of Service Agreement with Bruce Power</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>-\$1.8</u>	<u>-\$3.0</u>	<u>-\$3.9</u>
Sub-total (including Bruce Service Agreement)	<b>-\$10.3</b>	<b>-\$22.5</b>	<b>-\$73.0</b>	<b>-\$64.4</b>	<b>-\$10.4</b>	<b>-\$3.9</b>
Sub-total (excluding Bruce Service Agreement)	<b>-\$10.3</b>	<b>-\$22.5</b>	<b>-\$73.0</b>	<b>-\$62.6</b>	<b>-\$7.4</b>	<b>\$0.0</b>
<b>Savings (2008-12: Temp Backlog increase, P2/P3, VBOs, Discontinue Bruce Service Agreement)</b>						<b>-\$174.2</b>
<b>Savings (2008-12: Temp Backlog increase, P2/P3, VBOs)</b>						<b>-\$165.5</b>
<b>Savings (2010-12: Temp Backlog increase, P2/P3, VBOs, Discontinue Bruce Service Agreement)</b>						<b>-\$78.7</b>
<b>Savings (2010-12: Temp Backlog increase, P2/P3, VBOs)</b>						<b>-\$70.0</b>

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

<sup>1</sup> The savings associated with the Discontinuation of the Service Agreements with Bruce Power are from Note 4 of OPG’s response.

1 fleet-wide Initiatives and that amounted to a total of about \$40.3M and OPG further noted  
2 the total net savings associated with additional new cost saving measures net of  
3 divisional “targeted reductions” and divisional “additional expenditures” are \$36.3M in  
4 2011 and \$41.7M in 2012. Board staff has aggregated these figures as shown below and  
5 it amounts to \$118.3M.  
6  
7

	<u>\$M</u>
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)	<u>\$41.7</u>
<b>Total – Fleet-Wide Initiatives and Divisional/local cost reduction measures</b>	<b>\$118.3</b>

8  
9  
10 Please reconcile the total savings of \$118.3M above associated with the new initiatives  
11 as well as the new cost saving measures OPG refers to in the application with the  
12 following statements in the application:  
13

- 14 • In A1-T3- S1 (p.4), *“To help meet these targets, nuclear has developed seven key*  
15 *initiatives as part of the 2010 - 2014 Nuclear Business Plan (Ex. F2-T1-S1,*  
16 *Attachment 1). **Based on these initiatives and other cost control measures***  
17 *explained in Ex. F2-T1-S1, OPG’s 2010 - 2014 Nuclear Business Plan shows **more***  
18 ***than \$200M in OM&A cost savings in the test period.**”* (emphasis added)  
19
- 20 • In F2-T2-S1 (p.1), *“OPG has made significant operational and cost improvements*  
21 *which have been demonstrated since the previous application: Specifically: • 2012*  
22 *base OM&A costs are to be forecast to be below 2008 actual costs, with **cumulative***  
23 ***work-driven cost savings of \$260M for the 2010 - 2012 period;**”* (emphasis added)  
24

25 c) OPG’s response also noted that, for a summary of FTE reductions over the test period,  
26 see Ex. F2-T1-S1, Attachment 1, page 19 which refers to OPG’s Nuclear Business Plan.  
27

28 i) Page 19 of OPG’s Nuclear Business Plan cannot be used to confirm OPG’s claim in  
29 the application that was referenced in IR#45 *“• 2012 regular staff levels are forecast*  
30 *below 2008 levels by 689 staff, while non-regular 17 staff FTEs (“full time*  
31 *equivalents”) are reduced by 559”,* as the table does not include 2008. Board staff  
32 therefore referred to Table 13 in F2-T2-S1 (Staff Summary - Nuclear Operations) as it  
33 does include 2008. This table shows reductions of 689 and 559 as noted in the  
34 application. However, Board staff questions whether these figures represent staff or  
35 FTE reductions because it subtracts 2008 **Headcount** from 2012 **FTEs**. Subtracting  
36 Headcounts from FTEs is inappropriate as Headcount is always much higher than  
37 FTEs. Is OPG able to convert the Headcounts for 2008 and 2009 to FTEs to provide  
38 an appropriate comparison?  
39

40 ii) Putting aside the matter of Headcount vs. FTEs, Exhibit F2-T1-S1 (Attachment 1,  
41 page 19) which OPG referred to in the response shows (under “Plan-Over-Plan Major  
42 Business Reason for Regular Staff Variance from BP 2009-2013”) a cumulative  
43 reduction of 265 (2009 to 2012) and that 185 or 70% of that reduction is attributable

1 to “Discontinuing Service Agreements with Bruce Power”. Please confirm that Board  
2 staff has a correct understanding of the table on page 19 and the figures noted above  
3 are correct.  
4

5 d) In (c) of IR#45, it requested that OPG reproduce Table 1 in F2-T1-S1 (Operating Costs  
6 Summary – Nuclear) up to Line #9 (Total OM&A) to exclude the costs associated with the  
7 extraordinary and/or non-recurring items identified in IR#45 (e.g., VBOs, P2/P3 Isolation,  
8 etc). Based on Board staff’s review, it does not appear that this has been done. For  
9 example, the amounts associated with Base OM&A, Project OM&A and Outage OM&A  
10 all remain the same as Table 1 in F2-T1-S1 in the application. At the same time, a  
11 handful of figures have been adjusted associated with “Generation Development OM&A”  
12 (2009 and 2010) and “Allocation of Corporate Costs” (2009-2012).  
13

14 i) Please reproduce Table 1 in F2-T1-S1 as was requested (e.g., backing out VBO  
15 costs from Outage OM&A, P2/P3 Isolation from Project OM&A, etc.).

16 ii) Please also explain why “Allocation of Corporate Costs” was adjusted and why  
17 “Generation Development OM&A” was *increased* by \$20M in 2010 in the table  
18 reproduced by OPG.  
19  
20

## 21 Response

22  
23 The preamble in the question incorrectly links two statements regarding cost savings that are  
24 made on different bases. The quote from Ex. F2-T2-S1 page 1 is in respect of **base OM&A**  
25 costs. The reference to Ex. A1-T3-S1 page 4 is to total Nuclear OM&A, which includes  
26 **base, outage and project OM&A**. Therefore it is inappropriate to compare these two  
27 statements.  
28

29 In addition, the statement in Ex. F2-T2-S1 page 1 relates to the trending of costs over the  
30 2008 to 2012 period. That is, it presents **year-over-year reductions in base OM&A** for  
31 2010-2012 relative to 2008 actual costs. The statement in Ex. A1-T3-S1 page 4 relates to  
32 **reduction in the test period total nuclear OM&A relative to the previous business plan**.  
33 Again, the statements are made on different bases, are illustrating different things, and  
34 should not be brought together or reconciled.  
35

36 a) OPG does not agree with Board staff’s calculation of \$78.7 million of savings for 2010 –  
37 2012. The calculation has the following errors:

- 38 • Board staff references “savings for 2010 – 2012”, without referencing the base against  
39 which such savings are measured or the OM&A category to which these savings  
40 pertain. As stated above, OPG’s statement in Ex. F2-T2-S1 page 4 is for base OM&A  
41 relative to expenditures in 2008.
- 42 • Board staff indicates savings for 2010-2012 equal to the planned expenditures for the  
43 identified initiatives in those years, which is illogical.
- 44 • The following initiatives in the Board Staff table are not base OM&A expenditures and  
45 therefore not related to any statement of base OM&A cost savings:
  - 46 ○ P2/P3 Isolation and Safe Storage
  - 47 ○ Darlington VBO – 2009
  - 48 ○ Pickering VBO - 2010

1 Excluding these initiatives and correcting the other errors would reduce the \$78.7M  
2 figure to approximately \$33M relative to the 2008 baseline.

- 3 • While completion of certain initiatives contributes to cost reductions, new initiatives and  
4 evolving issues replace them and place upward pressure on costs, e.g., additional  
5 2011/ 2012 turbine work (Ex. F2-T1-S1 Attachment 1, Page 19), and maintenance of  
6 the new fish impingement mitigation system, Through business planning, OPG  
7 manages the ongoing requirement to maintain and invest in the nuclear facilities while  
8 achieving cost control targets.

9  
10 As stated in Ex. F2-T2-S1 page 1, OPG has achieved cost savings of \$260M for the 2010  
11 - 2012 period in base OM&A compared to 2008.

- 12  
13 b) The question refers to 'Divisional and Local Cost Reduction Measures' when, as  
14 indicated in Ex. L-1-45 Page 3 Lines 9-13, the amounts of \$36.3M and \$41.7M are in fact  
15 the net divisional and local cost reduction targets for 2011/2012 respectively. The fleet-  
16 wide initiatives and divisional/local cost reduction measures are the means for achieving  
17 these cost targets. It is therefore not appropriate to add the amounts, as has been done  
18 in part b) of the question. Similarly, the requested reconciliation to \$118.3M would not be  
19 appropriate.

20  
21 In addition, as stated in the first paragraphs of this response the statements in Ex. A1-T3-  
22 S1 page 4 and Ex. F2-T2-S1 page 1 are on different bases and therefore it is not  
23 appropriate to reconcile the two statements.

- 24  
25 c)  
26 (i) Board Staff are correct that Ex. F2-T2-S1 Table 13 is the appropriate reference.

27  
28 However, OPG does not accept Board Staff's conclusion that the claimed reduction is  
29 inappropriate as "headcount is always much higher than FTEs". In a case such as  
30 OPG's, where staff effort (FTEs) are decreasing year-over-year, year-end headcount is  
31 expected to be smaller than the budget FTE amounts.

32  
33 While it would be possible to calculate historic FTEs, it would be a labour-intensive effort  
34 requiring a "reverse engineering" of FTEs from headcounts that would involve a number  
35 of assumptions (for example, staff working 35 versus 40 hour weeks) that would impact  
36 the comparability of historical and future FTE numbers.

37  
38 For the above-noted reasons, OPG believes that the comparison OPG has provided in its  
39 pre-filed evidence is the appropriate comparison.

- 40  
41 (ii) Yes, the figures noted in the question are correct. However, it would be overly  
42 simplistic to conclude that exiting the Bruce Power agreement was the only significant  
43 driver of FTE reductions, and that other Nuclear FTE reduction efforts achieved only 80  
44 FTEs out of the 265 FTEs of cumulative FTE reductions in 2009-2012.

45  
46 The remaining 80 FTE reduction is a net amount, accommodating forecast FTE  
47 increases of 282 FTEs due to Pickering B Continued Operations, Pickering B Turbine  
48 Crew (previously purchased services) and Pickering A staff for U2/U3 management.

- 1
- 2 d) The attached table has been corrected to address errors in the response to L-01-045
- 3 (incorrect entries for Generation Development OM&A and Allocation of Corporate Costs,
- 4 and incomplete information for Temporary Increase for Backlog Issues, Table 1 Line 10).
- 5 In addition, Table 1 has been reformatted to present the Board Staff-requested
- 6 adjustments in individual OM&A line items within the table.

Table 1 - Modified for L-1-045  
 Operating Costs Summary - Nuclear (\$M)

Line No.	Cost Item	2008 Actual	2009 Actual	2010 Budget	2011 Plan	2012 Plan	Cost Category	Data Source
		(b)	(c)	(d)	(e)	(f)		
<b>Ex. F2-T1-S1 Table 1 (as in pre-filed evidence)</b>								
1	Base OM&A	1,252.4	1,216.5	1,187.0	1,192.3	1,219.8		
2	Project OM&A	136.5	143.7	143.8	135.9	132.2		
3	Outage OM&A	196.1	254.8	284.6	214.8	201.1		
4	Subtotal	1,585.0	1,615.0	1,615.5	1,543.0	1,553.2		
5	Generation Development OM&A	34.1	79.5	40.5	5.9	4.5		
6	Allocation of Corporate Costs	237.6	234.5	247.0	249.2	252.3		
7	Allocation of Centrally Held Costs	132.2	58.8	171.0	199.0	234.3		
8	Asset Service Fee	28.8	27.2	24.6	24.1	23.7		
9	Total OM&A	2,017.7	2,015.0	2,098.6	2,021.2	2,067.9		
<b>OM&amp;A Items to be Excluded from Ex. F2-T1-S1 Table 1 as per Board Staff Request</b>								
10	Temporary Increase for Backlog Issues	(19.6)	(14.7)	(9.8)	(7.4)		Base OM&A	See Note 1
11	P2/P3 Isolation and Safe Storage	(13.5)	(22.5)	(20.6)			Project OM&A	F231 Table 1
12	Darlington VBO - 2009 (3)	(8.1)	(35.4)				Outage OM&A	OPG Data
13	Pickering VBO - 2010 (3)	(0.9)	(5.8)	(32.2)			Outage OM&A	OPG Data
14	Discontinuation of Service Agreement with Bruce Power (4)							
	Pickering B Continued Operations							
15	Pickering B Continued Operations - Outage		(2.8)	(1.9)	(13.0)	(10.6)	Outage OM&A	F241 Table 1
16	Pickering B Continued Operations - Base		(1.6)	(9.8)	(17.7)	(14.7)	Base OM&A	F221 Table 1
17	Pickering B Continued Operations - Project		(0.4)	(1.8)	(19.9)	(17.0)	Project OM&A	F231 Table 1
18	Fuel Channel Life Cycle Mgmt Project (5)		(2.5)	(9.7)	(7.7)	(4.0)	Project OM&A	F231 Table 1
19	Darlington Refurbishment	(7.3)	(21.7)	(5.5)	(5.9)	(4.5)	Gen Dev OM&A	F271 Table 1
20	Sub-total Exclusions	(49.4)	(107.3)	(91.3)	(71.6)	(50.8)		
<b>Ex. F2-T1-S1 Table 1 Revised to Exclude Items as per Board Staff Request</b>								
21	Base OM&A	1,232.8	1,200.2	1,167.4	1,167.2	1,205.1		
22	Project OM&A	123.0	118.3	111.7	108.3	111.2		
23	Outage OM&A	187.1	210.8	250.5	201.8	190.5		
24	Subtotal	1,542.9	1,529.3	1,529.6	1,477.3	1,506.9		
25	Generation Development OM&A	26.8	57.9	35.0	0.0	(0.0)		
26	Allocation of Corporate Costs	237.6	234.5	247.0	249.2	252.3		
27	Allocation of Centrally Held Costs	132.2	58.8	171.0	199.0	234.3		
28	Asset Service Fee	28.8	27.2	24.6	24.1	23.7		
29	Total OM&A - Exclusions removed	1,968.3	1,907.6	2,007.2	1,949.6	2,017.1		
30	Reconciliation - Total OM&A (compare to Line 9)	2,017.7	2,015.0	2,098.6	2,021.2	2,067.9		

Note 1 - As per page 27 of 31 in Exhibit F2 Tab 2 Schedule 1, incremental funding for backlog reduction was removed in the 2010-2014 business planning process, except for the Pickering A Equipment Reliability Restoration program (2009-11). Costs for 2007-08 are from EB 2007-0905 Ex. F2-T2-S1 Pg 38 Chart 3.

Note 2 - As per page 27 of 31 in Exhibit F2 Tab 2 Schedule 1, incremental funding for backlog reduction was removed in the 2010-2014 business planning process, except for the Pickering A Equipment Reliability Restoration program. Darlington and Pickering B backlog reduction costs are from EB-2007-0905 Ex. F2-T2-S1 Page 38 Chart 3.

Note 3 - Costs are incremental, consistent with the Outage Exhibits.

Note 4 - Page 19 of the Nuclear Business Plan relates to staff. The \$145M related to Discontinuation of Service Agreements with Bruce Power cannot be found on this page.

Note 5 - Fuel Channel Life Cycle Management Project included, as it is a one-time activity supporting both PB Continued Operations and Darlington Refurbishment.