K8.3

Board Staff Interrogatory #081

Ref: Ex. F4-T3-S1, pages 30-31

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

It notes on page 30 that OPG participates in a study of the Power Services Industry conducted by Towers Perrin and Chart 11 provides a range of positions throughout OPG and compares them to the 75th percentile of market data. It notes *"This chart indicates that while some positions are paid above market and some are below market, OPG is slightly above the 75th percentile of market on an overall basis".* Based on chart 11 (p.31), about 64% of OPG's positions are above the 75th percentile and, on an overall basis, OPG is 6% above the 75th percentile.

a) Why does OPG consider 6% to be "slightly" above?

b) How much lower would OPG's total compensation costs be if OPG's positions were at the 75th percentile (i.e., not 6% above) on an overall basis?

c) Why has the Towers Perrin study used the 75th percentile as a benchmark instead of the 50th percentile?

Response

a) The definition of "on market' is accepted within the compensation industry, and used in its teaching material, as within plus or minus 10 per cent of the market rate – regardless of which percentile is used as a target market.

b) It is not possible to calculate meaningful total compensation costs based on the reduction of a subset of occupations because of the number of variations in differences from market rate, the composition of these specific occupations and their weight in the calculation of total compensation costs.

c) The Towers Perrin study provides information on the mean, 10th, 25th, 50th, 75th and 90th percentiles where data is available. OPG uses the comparison to the 75th percentile because of the relative complexity of work in a large, regulated and nuclear environment.

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SEC Interrogatory #036

Ref: Ex. F4-T3-S1, page 31

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

Please revise Chart 1 on page 31 to show OPG variance from the 50^{th} percentile.

Response

Below is the comparison of the same occupations in the Chart 11 on page 31 to the 50^{th} percentile of the market. As noted in the evidence, OPG believes that the 75^{th} percentile is a more accurate market considering the high technical skills required by nuclear staff, who are under-represented in the market data. Even at the 50^{th} percentile one-third of the occupations are at market.

Salary % Variance from the 50th Percentile	
Operation Technician - Senior	2%
Operating Technician - Entry	-3%
Senior Business Developer	2%
Project Financial Analyst - Senior	2%
Project Financial Analyst - Fully Qualified	1%
Engineer - Specialist or Group Leader	15%
Engineer - Fully Qualified	21%
Engineer - Developmental	22%
Engineer - Entry	20%
Technologist - Advanced Specialist or Supervisor	15%
Technologist - Fully Qualified	17%
Technologist - Developmental	16%
Technologist - Entry	25%
Senior Daily Trader/Power Trader	29%
Environment - Advanced Specialist or Supervisor	22%
Environment - Fully Qualified	35%
Industrial Nurse	-3%
Safety - Advanced Specialist or Supervisor	11%
Safety - Specialist or Group Leader	20%
Puchasing Supervisor	17%
Junior Buyer	23%
Fleet Manager	10%
Regulatory Analyst - Advanced Specialist or Supervisor	10%
Regulatory Analyst - Specialist or Group Leader	17%
Regulatory Analyst - Fully Qualified	5%
Warehouse Supervisor	30%
Maintenance Supervisor	21%
Maintenance Techician - Dual Trade	7%
Maintenance Planner	38%
Labourer	21%

Board Staff Interrogatory #079

Ref: Ex. F4-T3-S1, pages 14-15

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

Section 5.4.4 discusses "Authorization Bonuses and Leadership Allowances". It notes that employees in nuclear who are authorized by the CNSC and are required to maintain their licenses as a requirement of their job, receive a licence retention bonus of up to 28% of their base salary and that bonus is pensionable. It also notes Authorized Training Supervisors are eligible to receive 75% of those authorization bonuses. It further notes Management Group employees who are required to work shifts are paid a leadership allowance (in lieu of shift premiums) which provides an additional 30 – 40% of base salary, of which 10% is pensionable and if they are licensed, also receive the same license retention bonus. It also discusses such allowances and bonuses are necessary to attract and retain staff and to provide appropriate incentives to staff to keep their licences current.

a) Please clarify if this means certain staff are eligible to receive a bonus of up to 68% of their base salary of which about half is pensionable.

b) How many OPG staff are eligible for these bonuses?

c) Are the bonuses of similar magnitude at the comparators discussed in the application such as Bruce Power? And are they pensionable to the same extent?

Response

a) Yes. As explained in part b) below, the 21 Management Group Shift Managers receive the bonus, half of which is pensionable.

b) There are several occupations within all three employee groups that may receive Authorization, Leadership and Performance payments:

- The Authorized Nuclear Operators represented by the Power Worker's Union may receive Authorization payments of up to 28 per cent for achieving and maintaining their federal-regulated operating licences. They may also receive performance awards of up to 8 per cent. There are 228 employees in these occupations as of June 30, 2010.

- The Control Room Supervisory group is represented by the Society of Energy Professionals and is eligible for similar authorization payments and performance awards as the nuclear operators. There are 51 employees in these occupations as of June 30, 2010.

- The Authorized Training Supervisors are also represented by the Society of Energy Professionals and are eligible for up to 75 per cent of the payments made to the Control Room Supervisory group. There are 44 employees in this occupation as of June 30, 2010.

- Shift Managers are Management Group and are not unionized. These employees receive the same authorization payments as the represented staff, and also receive a leadership allowance of up to 40 per cent in lieu of overtime and shift differentials. The average total compensation for these employees is 6 per cent higher than their unionized subordinates. There are 21 Shift Managers as of June 30, 2010.

c) It is OPG's understanding that Bruce Power offers incentives for authorized staff, however the specific amounts and terms are not known.

Board Staff Interrogatory #075

Ref: Ex. F4-T3-S1

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

The evidence indicates that OPG's labour agreements will expire as follows:

Power Workers Union - March 31, 2012
Society of Energy Professionals - December 31, 2010.

Please complete the table below to capture the projected general salary and wage percent increases built in to the 2011 and 2012 test year OM&A budgets for Management, Power Workers Union and Society of Energy Professionals employees.

GENERAL SALARY & WAGE INCREASES						
	2011			2012		
	effective date	%	$ impact on OM&A	effective date	%	$ impact on OM&A
Management						
Power Workers						
Society						
Total						

Response

The table below provides the estimated impacts of labour escalation on OPG's total OM&A costs for the regulated business that are built into the revenue requirement for each of the 2011 and 2012 test years based on indicated effective dates. The definition of escalation used is that presented in Ex. F4-T3-S1, page 28, lines 9-11 and thus, includes assumed general (economic) wage increases and assumed increases due to staff movement, progressions and promotions.

	2011			2012		
	effective date	%	$M impact on OM&A	effective date	%	$M impact on OM&A
Management	Jan 1	3.0%	5	Jan 1	3.0%	11
Power Workers	Apr 1	4.0%	26	Apr 1	4.0%	53
Society	Jan 1	4.0%	17	Jan 1	4.0%	36
Total			48			100

The impacts provided above include labour escalation affecting nuclear, regulated hydroelectric and the corresponding allocated hydroelectric central support and corporate function support costs. The dollar amounts for 2012 reflect the compounded impact of two years' escalation.

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service, when all of the costs and benefits from that project are fully known.

We would note also that in the Board's report, the infrastructure report, this issue did not seem to be a concern of the Board.

They talked about they would be monitoring the projects, but there did not seem to be a concern expressed about this issue.

And part (d) of the question asks:

> "Assuming that there had been some level of imprudence on OPG's part in managing the project, please explain how intervenors would be able to demonstrate this imprudence after the fact, given that they have to rely on OPG project-specific information."

Our response to this question is this circumstance or situation is no different than any other project.

MR. KEIZER: Thank you. Then moving on to page 37 of the compendium, and VECC Question No. 5.

MS. IRVINE: Yes. I can confirm that the escalation rates used for 2011 and 2012 are, in fact, four percent for each of the PWU and Society, and three percent for management group.

MR. KEIZER: Thank you. Moving on to --

MR. SHEPHERD: Hang on, sorry. Is that because there is a contract in place, or because you are projecting what it would be?

MS. IRVINE: We were looking for an assumption that would be reasonable, and this is what we have used because of the contracts that are in place now that provide three percent to PWU and Society staff. And then you add some additional funds to cover-off step progressions within job families and promotions.

MR. SHEPHERD: But --

MS. IRVINE: At our historical rate.

MR. SHEPHERD: Have you factored in your hiring of more junior people, which -- you have increased the rate of hiring more junior people, right?

MS. IRVINE: No, that has not been factored in.

MR. SHEPHERD: So that would tend to push the cost increase down, right?

MS. IRVINE: It may.

MR. SHEPHERD: Thank you.

MR. KEIZER: Moving, then, to VECC No. 6.

MS. IRVINE: This question refers to a comment made in the evidence with respect to total compensation package and how we know it is in line with the market.

It refers to a piece of an interrogatory that doesn't actually do that kind of comparison.

The total compensation market comparisons are based on the information that is collected by Mercer and is provided in attachment 1, figure 1 on page 36 of the evidence.

MR. KEIZER: Thank you. Moving on, then, to VECC No. 7.

MS. IRVINE: It is difficult to list the number and precise occupations that are -- we have difficulty

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2010 Ontario Budget: FAQ:
Public Sector Compensation Restraint To Protect Public Services Act, 2010

Public Sector Compensation Restraint

Ontario has felt the effects of the global recession and is running a deficit in order to create jobs and protect our public services.

Ontarians value and appreciate the contributions of those who deliver their public services. They also expect those who are paid by tax dollars to do their part to help sustain public services.

The McGuinty government is managing responsibly by controlling costs in one of its largest spending lines - compensation of public sector employees.

Everyone who is paid through taxpayer dollars is being asked to do their part.

MPPs will lead by example with a three-year salary freeze.

The government has passed legislation that will freeze the compensation structures of non-bargaining political and Legislative Assembly staff for two years.

It will also freeze compensation plans for all non-bargaining employees in the broader public sector, including the Ontario Public Service, for two years. This will help redirect up to $750 million toward sustaining schools, hospitals and other public services.

For employees who bargain collectively, the government will respect all current collective agreements. When these agreements expire and new contracts are negotiated, the government will work with transfer payment partners and bargaining agents to seek agreements of at least two years' duration that do not include net compensation increases.

The fiscal plan provides no funding for compensation increases for future collective agreements.
It doesn't matter whether contracts expire next month, next year or the year after that - all employers and employee groups will be expected to do their part.

This is a balanced and responsible plan that requires employers and employee groups in the public sector to work together and do their part to sustain public services.

Q. Who is covered by the legislation?

A.The Act covers all public sector employers who have employees that do not collectively bargain compensation.

Excluded from the legislation are municipalities and local boards of municipalities and other employers that receive less than $1 million funding from the province,.

Q. Which employees will be affected by this legislation?

A. MPPs, non-bargaining political staff and non-bargaining employees across the broader public sector and the Ontario Public Service will be required under this legislation to contribute to public sector compensation restraint.

Non-bargaining employees in the Ontario Public Service, hospitals, boards of health, schools, colleges, universities, Hydro One, Ontario Power Generation, and many other provincial agencies, boards and commissions will be prohibited from compensation increases before the beginning of April 2012, except in specified circumstances.

Q. Why only non-bargaining employees of public sector employers, and not those who bargain collectively (e.g., unionized)?

A. All broader public sector employees are being asked to contribute to protect public services during these challenging times. It is only the fair thing to do.

For non-bargaining employees, the restraint legislation prohibits increases to rates of pay, pay ranges, benefits, perquisites or other payments for two years, until April 2012. Employees who are part of a union or who bargain compensation collectively would see their current agreements honoured. When these agreements expire and new contracts are negotiated, the government will work with transfer payment partners and bargaining agents to seek agreements of at least two years' duration that do not include net compensation increases.

The fiscal plan provides no funding for compensation increases for future collective agreements.

It doesn't matter whether contracts expire next month, next year or the year after that - all employers and employee groups will be expected to do their part.

Q. When does the legislation come into effect?

A. The Act is in effect as of March 25, 2010.

Read Schedule 24 Public Sector Compensation Restraint to Protect Public Services Act, 2010 of Bill 16 An Act to implement 2010 Budget measures and to enact or amend various Acts.

Q. What does the restraint do?

A.The Act prohibits increases to compensation, including rates or pay, pay ranges, benefits, perquisites and other payments before the beginning of April 2012, except in specified circumstances.

Q. How long does the restraint last for?

A. The Act covers the time period up to and including March 31, 2012.

Q. What is included in the definition of a compensation plan?

A. A compensation plan consists of all aspects of an employee's compensation including base pay, merit pay, time off such as vacation, pension, health and other benefits. Freezing a compensation plan and all of its components means, in short, there will be no across-the-board increases and salary ranges are limited to existing levels.

Q. Are you freezing compensation?

A. The legislation prohibits increases to rates of pay, pay ranges, benefits, perquisites and other payments that were in effect on March 24, 2010 before the beginning of April 2012, except in specified circumstances.

Under the legislation, there are certain conditions specified which will allow for salary increases for employees, within an existing pay range, providing these were part of an organization's compensation plan as it existed on March 24th 2010. These conditions include:

- the employee's length of time in employment or office
- assessment of performance
- the employee's successful completion of a program or course of professional or technical education.

Q. Who can tell me if I am covered by this legislation?

A. If it is unclear if the legislation applies to you, contact your employer.

If either you or your employer is uncertain if your organization is a recognized bargaining group, you or your employer can seek direction from the Public Sector Compensation Restraint Board. This board will have the authority to determine whether employers or employees are covered by the legislation.

Q. Is there going to be legislation which covers employees who collectively bargain compensation (e.g., unionized)?

A. All public sector employees are being asked to contribute to protecting public services during these challenging times. It is only the fair thing to do.

Non-bargaining employees will see a prohibition on increases to rates of pay, pay ranges, benefits, perquisites or other payments for two years.

Employees who are part of a union or who bargain compensation collectively would see their current agreements honoured. When these agreements expire and new contracts are negotiated, the government will work with transfer payment partners and bargaining agents to seek agreements of at least two years' duration that do not include net compensation increases.

The fiscal plan provides no funding for compensation increases for future collective agreements.

It doesn't matter whether contracts expire next month, next year or the year after that - all employers and employee groups will be expected to do their part.

THE GLOBE AND MAIL

September 16, 2010

Arbitrator nixes Ontario's plans for wage freezes

By Karen Howlett and Carys Mills
From Friday's Globe and Mail

Pay increase awarded to long-term care home workers, undermining province's strategy for cost containment in public service

The Ontario government's attempts to rein in public sector spending were dealt a major setback after an arbitrator ruled it has no authority to impose wage freezes without taking the unpopular step of legislating them.

Finance Minister Dwight Duncan has urged Ontario's one million public sector workers to take a two-year wage freeze to help restore the province's financial health and protect its vital social services.

But an arbitration case has called those restraint measures into question. In a binding ruling released Thursday, arbitrator Norm Jesin awarded 17,000 workers in long-term care homes a 2-per-cent wage increase for this year. Labour leaders say the award could affect the outcome of talks for hundreds of thousands of workers in other sectors, including hospitals, public schools and universities. If other arbitrators respect this judgment, they say, Mr. Duncan could be forced to abandon his restraint measures.

"I think the government is going to have to reconsider the road they're going down," said Sharleen Stewart, SEIU president of Local 1 Canada, which represents the long-term care home workers.

The award sets a standard that other arbitrators will follow, she said, adding that hospital workers are now in arbitration.

The province has also been in a dispute with unions over whether workers in for-profit, long-term-care homes should be included in the wage freeze.

Mark Langer, president of the Ontario Confederation of University Faculty Associations, said if staff of for-profit nursing homes are not part of the wage freeze, it raises questions about including university employees. The government no longer provides the majority of funding for universities, he noted.

Ontario is one of many provinces that are fighting budget shortfalls by imposing restraints on the public sector. Mr. Duncan introduced legislation this year that freezes the wages of non-unionized employees within the government and the broader public sector. British Columbia has imposed a two-year, "net zero" mandate on collective bargaining, and so far just over half of the province's unionized public sector employees have now re-negotiated agreements that were set to expire in 2010.

Mr. Duncan told reporters on Thursday that he plans to continue with his push for a wage freeze.

"This doesn't change anything," he said, referring to the arbitrator's ruling. He reiterated that the government has no plans to legislate freezes for public-sector workers who bargain collectively.

In his ruling, the arbitrator says labour leaders and employers must respond to economic conditions, not a government's fiscal policies, in setting wages.

"I cannot accept that compensation should be frozen because of the budget, particularly as there has been no legislation by the government requiring such a freeze," Mr. Jesin says.

The arbitrator's award reflects the fact that wage settlements have been much more modest over the past year and the government can take some comfort from that, said labour lawyer Steven Barrett.

"The award also confirms that to expect zero increases simply isn't consistent with fairness or reasonableness," he said.

Opposition members said the ruling exposes flaws in the government's efforts to keep a lid on public-sector wage increases.

"In the arbitration world, nobody is buying the government's argument that its budget problems necessarily require freezes on salaries for the hourly-wage workers," New Democrat MPP Peter Kormos told reporters.

With a report from Justine Hunter in Victoria

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10.0 COMPARISON OF COLLECTIVE AGREEMENTS

When assessing the prudency of Hydro One's collective agreements, a useful comparison would be the compensation wage scales for similar PWU and Society classifications in the Ontario Hydro successor companies as Hydro One competes for staff with these companies and is vulnerable to losing staff to these organizations. Such a comparison is instructive since all these wage scales have the same starting point, which is the establishment of the successor companies in 1999. It is important to compare compensation escalation based on total "dollar" base rates of similar classifications. Simply comparing accumulated base rate percentage increases does not capture the true difference between total base compensation paid at the successor companies.

In the two wage scale comparison tables for each of PWU and Society staff which follow the wage scale rates shown are for the top end of the wage scale band.

Power Workers' Union – Wage Scale Comparisons, 1999 and 2009

	1999	2009	Percent Change
Mechanical Maintainer/Regional Maintainer - Mechanical			
Hydro One	$ 28.23	$ 38.30	36%
OPG	$ 29.08	$ 44.72	54%
Bruce Power	$ 29.08	$ 50.73	74%
Shift Control Technician/Regional Maintainer - Electrical			
Hydro One	$ 28.23	$ 38.30	36%
OPG	$ 30.31	$ 44.72	48%
Bruce Power	$ 30.31	$ 50.88	68%
Clerical – Grade 56 (based on 35-hour work week)			
Hydro One	$ 21.46	$ 29.12	36%
OPG	$ 21.46	$ 28.56	33%
Bruce Power	$ 21.46	$ 31.62	47%
Clerical – Grade 58 (based on 35-hour work week)			
Hydro One	$ 24.20	$ 32.84	36%
OPG	$ 24.20	$ 34.79	44%
Bruce Power	$ 24.20	$ 35.65	47%
Regional Field Mechanic/Transport & Work Equipment Mechanic			
Hydro One	$ 26.20	$ 35.56	36%
OPG	$ 26.20	$ 44.72	71%
Bruce Power	$ 26.20	$ 42.58	63%
Stockkeeper			
Hydro One	$ 23.27	$ 33.15	42%
OPG	$ 23.27	$ 34.79	50%
Bruce Power *	$ 23.27	$ 39.87	71%
Labourer			
Hydro One	$ 19.03	$ 25.82	36%
OPG	$ 19.03	$ 34.79	83%
Bruce Power *	$ 19.03	$ 39.87	110%

** Assumes that the position falls within the Civil Maintainer II classification and corresponding wage rate.*

For PWU staff, Hydro One has negotiated substantially lower wage scales than OPG and Bruce Power for all seven positions with the exception of one.

Society of Energy Professional – Wage Scale Comparisons 1999 and 2009

	1999	2009	Percent Change
MP2			
Hydro One	$ 77,954.79	$ 90,686.36	16%
OPG	$ 77,954.79	$ 92,026.10	18%
Bruce Power	$ 77,954.79	$ 90,666.01	16%
IESO	$ 77,954.79	$ 106,809.54	37%
MP4			
Hydro One	$ 88,651.39	$ 103,052.68	16%
OPG	$ 88,651.39	$ 104,593.53	18%
Bruce Power	$ 88,651.39	$ 103,080.86	16%
IESO	$ 88,651.39	$ 121,419.54	37%
MP6			
Hydro One	$ 100,756.80	$ 117,193.07	16%
OPG	$ 100,756.80	$ 118,923.51	18%
Bruce Power	$ 100,756.80	$ 117,215.50	16%
IESO	$ 100,756.80	$ 138,064.50	37%

For Society staff, Hydro One, OPG and Bruce Power have successfully negotiated lower end rates. The IESO has continued with the wage schedule structure that existed at demerger.

In addition to the comparison of base rate wage scales, the following two charts highlight significant additional incentives and allowances over and above the base rate wage scales for each of PWU and Society staff at other successor companies. These incentives are not reflected in the preceding wage scale comparison tables.

PWU– Additional Payments, 2009

	Incentive Pay
Hydro One	• No skilled based/competency payment.
OPG	• In 2002, OPG introduced Skill Broadening, which led to eligible employees receiving a $1,000 lump sum, as well as a wage increase of 5% (in addition to the general wage increase of 2% for that year).
Bruce Power	• In 2003, Bruce Power implemented a competency-based progression plan, which provided up to a 12% increase for journeypersons and a 6% increase for supervisors. • Bruce Power has also introduced Multi Trade rates for certain classifications, which are higher than the competency-based rates.

Society of Energy Professionals – Additional Payments, 2009

	Incentive Pay
Hydro One	• No incentive plan.
OPG	• Pays a number of bonuses for supervision, specialized work, training/certification and retention. • Tends to have more provident benefit plans than Hydro One. For example, paramedical care: OPG provides $1500 per year; Hydro One provides $500 per year based on 50% co-insurance.
Bruce Power	• Has a bonus plan for 2009, which if Company targets are met, pays 2% for MP2 and MP3, 4% for MP4 and MP5, 6% for MP6 (additional 1% available if stretch targets met). • Pays a number of bonuses for supervision, specialized work, training/certification and retention.
IESO	• Has a Performance Pay Plan where the Company will make a minimum performance payout of 1.5% of base payroll.

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In an IESO OEB Decision (EB-2008-0340), the Board accepted the recommendations of the technical committee that the IESO compensation was reasonable. It is noteworthy that Hydro One's compensation for Society staff at both the lower and upper end of the wage scale bands are lower than that at the IESO. Further, in its Decision With Reasons in EB-2007-0905, the Board accepted OPG compensation levels. In both these Decisions over the past year, the OEB has accepted the compensation levels of entities that pay more for similar positions at Hydro One. In addition, it is quite clear that compared to these four other companies, Hydro One has been quite successful in controlling costs in collective bargaining over the past ten years to the benefit of all ratepayers.

Utility Industry Wage Increases

A cross section analysis of negotiated wage increases in the Canadian utility sector shows a 3.2 per cent per year[2] average wage increase between 1999 and 2009. The average increase for PWU employees is 3.35 percent and 3.00 percent for Society employees over the same period. Mercer has projected the average 2010 salary increase for all employee groups in the utility sector is 3.5%. The PWU and the Society have negotiated 3% economic increases for 2010. Hydro One has demonstrated since demerger in 1999, unionized rate increases has been consistent with increases negotiated throughout the utility sector.

[2] January 13, 2010 Wage Tabulation from 1999 to 2010, prepared by Strategic Policy, Analysis, and Workplace Information Directorate. Employers included: ATCO Electric, ATCO Gas, B.C. Gas Utility Ltd., British Columbia Hydro and Power Authority, Bruce Power, Consumerfirst, Enbridge Gas Distribution, Enbridge Home Services, Division of Enbridge Services Inc., Enbridge Consumers Gas, Enmax Corporation, Epcor Utilities, Essential Home Services, Greater Vancouver Regional District, Hydro One Inc., Hydro-Quebec, Inergi L.P., Manitoba Hydro, Manitoba Hydro-Electric Board, New Brunswick Power Generation Corporation, Newfoundland and Labrador Hydro, Nova Scotia Power Incorporated, Ontario Power Generation, SaskEnergy Inc, Sask Power, Toronto Hydro, Terasen Gas Inc., TransAtla Utilities Corporation, Union Gas Limited,

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11.0 SUMMARY

Compensation levels at Hydro One are reasonable and appropriate given the environment in which the Company operates. In recent years, despite significantly increased work volumes, overall costs have been minimized by the simplification of required job skills and pay levels where appropriate. Hydro One's demographic challenge requires us to be active in the labour market place and with world wide competition for these skills, there is a need for competitive compensation.

A strong barometer of Hydro One's ability to restrict compensation increases is a direct comparison to companies such as OPG, Bruce Power, and IESO. Hydro One competes directly with these organizations for skilled workers. Hydro One is also at risk of losing experienced staff to these organizations if our compensation is not competitive. Despite these competitive pressures, Hydro One has negotiated compensation levels that are less costly than OPG, Bruce Power and the IESO.

In addition, in a heavily unionized environment, there are significant constraints on an employer's ability to reduce compensation costs per employee. However, despite these constraints, the Corporation has made significant gains in the reduction of pension and benefits costs for MCP staff and pension costs for Society-represented staff.

As well, over time, as current employees retire and new staff are hired, lower Society wage schedules and the reduced compensation and benefit levels for new MCP hires should further reduce overall compensation costs. Compensation at Hydro One is heavily influenced from the legacy of being part of Ontario Hydro. However, Hydro One has demonstrated a track record of making progress on cost reduction and increased management flexibility.

Numbers may not add due to rounding.

Updated: 2008-05-26
EB-2007-0905
Exhibit F2
Tab 1
Schedule 1
Table 1

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Table 1

Operating Costs Summary - Nuclear ($M)

Line No.	Cost Item	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2009 Plan
		(a)	(b)	(c)	(d)	(e)
	OM&A:					
1	Base OM&A	1,036.4	1,133.8	1,216.6	1,360.8	1,368.0
2	Project OM&A	155.9	142.0	111.6	144.6	137.1
3	Outage OM&A	163.0	187.7	215.6	192.2	207.9
4	Allocation of Corporate Costs	356.2	423.2	446.8	457.0	430.2
5	Asset Service Fee	14.7	30.8	33.2	29.9	25.5
6	P2/3 Impairment Charges and Write-Offs[1]	120.0	0.0	0.0	0.0	0.0
7	Total OM&A	1,846.2	1,917.5	2,023.8	2,184.6	2,168.7
8	Nuclear Fuel Costs	100.5	104.9	113.0	162.4	204.2
	Other Operating Cost Items:					
9	Depreciation[2]	259.6	242.8	300.7	294.4	316.4
10	Income Tax	5.7	0.0	0.0	0.0	0.0
11	Capital Tax	8.6	9.0	7.9	7.9	7.8
12	Property Tax	7.5	16.8	8.2	13.9	14.2
13	Total Operating Costs	2,228.1	2,291.0	2,453.5	2,663.1	2,711.3
14	Total Regular Staff FTEs	7,311.7	7,484.7	7,542.0	8,109.1	7,933.8
15	Non-Regular Staff FTEs	787.2	624.5	736.8	379.3	250.9
16	Total Staff FTEs	8,098.9	8,109.2	8,278.8	8,488.4	8,184.7

1 Impairment charge ($63M) associated with construction work in progress and fixed assets for Pickering A Units 2 & 3; and write-off of inventory ($57M) for Pickering A Units 2 & 3.

2 Includes nuclear waste management variable expenses (2005 Actual - $4.0M, 2006 Actual - $3.6M, 2007 Actual - $1.6M, 2008 Plan - $1.7M, 2009 Plan - $1.8M)

Numbers may not add due to rounding.

Table 13
Staff Summary - Nuclear Operations

Line No.	Group	2007 Actual (Headcount)	2008 Actual (Headcount)	2009 Actual (Headcount)	2010 Budget (FTEs)	2011 Plan (FTEs)	2012 Plan (FTEs)
		(a)	(b)	(c)	(d)	(e)	(f)
1	Regular Staff	7,281	7,348	7,332	7,155	6,808	6,659
2	Non-Regular Staff FTEs (all years)	733	720	732	400	247	161
3	Total Staff Resources	8,014	8,068	8,064	7,555	7,056	6,820

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Board Staff Interrogatory #40

Ref: Ex. F2-T1-S1, Table 1 and Ex. F2-T2-S1, Table 3

Issue Number: 5.1
Issue: Are the Operation, Maintenance and Administration ("OM&A") budgets for the prescribed hydroelectric and nuclear business appropriate?

Interrogatory

At the bottom of Table 1 in F2/T1/S1, the number of Nuclear FTEs is provided for each year. There has been a relatively constant increase in the "Total Regular Staff FTEs – Nuclear" from 7,311.7 in 2005 to 8,109.1 in 2008. While it declines to 7,933.8 in 2009, there is a net increase of 8.5% or 622 FTEs (about 155.5 per year).

a) Over the same period, there is a coincident decline of a similar magnitude for "Non-Regular Staff FTEs". Is this trend a matter of contract staff being made permanent? If not, please explain the reason(s) for the increase in Regular Staff FTEs.

b) Similar FTE figures, by year, were not provided for the regulated hydroelectric business in Table 1 in F1/T1/S1. Please provide those FTE figures.

Response

a) The downward trend in non-regular staff FTEs reflects actual or planned hiring of regular staff to fill vacancies, such that non-regular (temporary) staff currently performing the duties are no longer required.

b) Total FTEs for the regulated hydroelectric business are presented in Ex.F1-T2-S1 Tables 1 and 2. Further detail for regular and non-regular FTEs is provided in Chart 1 below.

Chart 1

Regulated Hydroelectric
Regular and Non-Regular FTEs

	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2009 Plan
Niagara					
Regular FTEs	225.0	219.6	215.9	230.6	231.0
Non-Regular FTEs	5.2	3.8	12.9	5.6	2.0
Niagara Total FTE's	**230.2**	**223.4**	**228.8**	**236.2**	**233.0**
Saunders					
Regular FTEs	69.2	63.9	63.9	67.1	67.8
Non-Regular FTEs	3.3	1.7	1.6	0.7	0.7
	72.5	**65.6**	**65.5**	**67.8**	**68.5**
Regulated Hydroelectric Total FTEs	**302.7**	**289.0**	**294.3**	**304.0**	**301.5**

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SEC Interrogatory #18

Ref: Ex. F2-T2-S1, Table 4

Issue Number:
Issue:

Interrogatory

a. Expand Table 4 to show the total compensation for each year from 2005 to 2009 as well as the total year over year percentage increase in total compensation.

b. Provide average total compensation per FTE (divided by base pay, overtime, benefits and incentive pay) for 2005-2009.

Response

a) Attachment 1 provides total labour expenditures for each year, and the percentage increase year-over-year, consistent with the data in Ex. F2-T2-S1, Table 2. As this reflects total labour costs, it includes volume changes (staff increase/decrease) as well as changes in individual staff compensation. This data excludes overtime pay.

b) Average compensation and benefits costs, including sub-division into base salary, overtime, incentives and benefits, for nuclear staff for 2006 and 2007 is provided in the response to interrogatory L-1-52. This information is based on actual payroll data for the respective years. Comparable data for 2005 for nuclear staff is provided in Chart 1 below, with the exception of data for benefits. Benefits are defined largely as group life insurance and health and dental benefits while employed (but not pension and other post-employment benefits, which are provided in Chart 1). Benefits data as defined above is not provided for 2005 because it requires an allocation of information from the payroll system, which cannot be extracted without significant burden due to organizational changes that took place in 2005.

For 2008 and 2009, the requested data cannot be produced because actual payroll data necessary to provide the required sub-division is not yet available for those years. OPG notes that its business planning assumptions regarding labour cost escalation for each of the years in the period 2005 to 2009 are found in Section 8.0, Ex. F3-T4-S1.

Attachment 1:

OM&A Base Labour ($M)

Line No.	Function	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2009 Plan	Year Over Year % Incr 06-05	07-06	08-07	09-08
	Operational Functions - Station									
	Darlington NGS									
	Operations & Maintenance									
1	- Operations	46.0	52.4	55.0	64.2	68.3	14%	5%	17%	6%
2	- Maintenance	68.3	82.5	89.6	89.0	90.7	21%	9%	-1%	2%
3	- Fuel Handling	14.0	17.5	17.7	20.6	21.3	25%	1%	17%	3%
4	- Rad Prot, Chemistry & Envrnt	10.2	12.1	13.3	12.4	13.0	19%	10%	-7%	5%
5	Station Engineering	22.0	24.6	24.8	24.2	23.9	12%	1%	-2%	-1%
6	Work Management	8.9	10.8	10.5	12.7	11.7	20%	-2%	21%	-8%
7	Support Services	10.7	12.2	11.7	12.5	13.0	14%	-4%	7%	4%
8	Tritium Removal Facility	6.9	10.2	11.3	13.4	13.9	47%	12%	19%	3%
9	Subtotal	187.1	222.3	234.0	249.1	255.8	19%	5%	6%	3%
	Pickering A NGS									
	Operations & Maintenance									
10	- Operations	42.4	47.1	48.9	57.6	60.5	11%	4%	18%	5%
11	- Maintenance	48.1	40.4	43.5	42.2	41.5	-16%	8%	-3%	-2%
12	- Fuel Handling	10.5	10.8	9.0	12.7	13.3	3%	-16%	41%	5%
13	- Rad Prot, Chemistry & Envrnt	2.8	3.9	4.1	3.0	2.9	37%	5%	-27%	-4%
14	Station Engineering	14.8	17.5	18.9	19.3	18.9	18%	8%	2%	-2%
15	Work Management	5.5	7.4	8.0	11.3	13.3	34%	8%	43%	17%
16	Support Services	5.0	4.6	5.1	4.9	4.7	-7%	10%	-4%	-3%
17	Subtotal	129.0	131.6	137.3	150.9	155.1	2%	4%	10%	3%
	Pickering B NGS									
	Operations & Maintenance									
18	- Operations	45.9	49.4	51.9	57.3	58.8	8%	5%	10%	3%
19	- Maintenance	60.6	69.6	76.4	78.7	80.3	15%	10%	3%	2%
20	- Fuel Handling	16.1	17.4	18.2	19.6	20.5	8%	4%	8%	4%
21	- Rad Prot, Chemistry & Envrnt	14.4	17.1	16.7	18.5	16.7	19%	-2%	11%	-10%
22	Station Engineering	24.3	27.8	28.2	26.2	26.8	14%	1%	-7%	2%
23	Work Management	11.8	13.1	12.1	11.7	10.5	11%	-7%	-3%	-10%
24	Support Services	10.3	11.7	12.7	13.4	13.6	13%	8%	6%	1%
25	Subtotal	183.5	206.2	216.1	225.5	227.3	12%	5%	4%	1%
26	**Total Stations**	499.6	560.0	587.5	625.5	638.2	12%	5%	6%	2%
	Operational Functions - Support									
27	Engineering & Modifications	31.5	37.6	36.9	35.6	36.6	19%	-2%	-3%	3%
	Programs & Training									
28	- Facilities, Records and Admin	39.7	48.1	52.2	52.3	54.5	21%	9%	0%	4%
29	- Nuclear Programs & Training	52.2	54.5	61.8	72.0	75.5	4%	13%	17%	5%
30	- Security	21.6	23.7	25.5	30.3	37.4	10%	7%	19%	23%
31	Supply Chain	37.8	52.8	53.9	52.0	48.8	40%	2%	-4%	-6%
32	PINO	7.7	9.2	9.7	10.1	10.1	20%	6%	4%	0%
33	Nuclear Level Common	14.8	10.5	6.0	6.0	5.2	-29%	-43%	0%	-13%
34	**Total Support**	205.2	236.3	245.9	258.2	268.1	15%	4%	5%	4%
	Operational Functions - NGD&S									
35	SVP Office	0.0	0.0	0.3	1.0	1.4	0%	0%	192%	39%
36	Inspection & Mtce Services	26.5	31.3	33.1	41.6	43.4	18%	6%	26%	4%
	Generation Development									
37	- Refurbishment Programs	0.7	4.0	7.7	9.1	8.5	478%	94%	18%	-7%
38	- New Nuclear Build	0.0	0.1	2.7	12.2	14.4	0%	0%	353%	18%
39	Commercial Activities	1.2	1.3	1.1	1.5	1.5	11%	-16%	33%	4%
40	**Total NGD&S**	28.4	36.7	44.9	65.4	69.3	29%	22%	46%	6%
41	**Waste & Transportation Services**	3.6	3.8	5.2	3.3	3.4	5%	37%	-37%	5%
42	**Total**	736.8	836.8	883.5	952.3	978.9	14%	6%	8%	3%

Chart 1
Average Employee Costs ($K) For Nuclear Business
Year End 2005

	Regular	Non-Regular [5]
Base Salary[1]	77.6	40.8
Overtime[1]	14.4	14.2
Incentives[1,2]	1.6	0.0
Other[1,3]	4.4	8.9
Benefits[4]	N/A	0.0
Pension/OPEB[6]	18.5	0.0

[1] Based on 2005 year end payroll data for employees in their home-base positions
[2] Includes goalsharing and authorization bonuses for PWU; goalsharing, performance recognition plan and authorization bonuses for the Society, and Annual incentive plan and leadership allowances for Management Group
[3] Includes travel time, unused vacation days paid out, standby allowance and shift allowance
[4] Data is not available as explained in the body of the response.
[5] Includes temporary employees for "peak" periods
[6] Represents the current service cost ("CSC") component of the total pension/OPEB costs. CSC is the only component of the pension/OPEB costs (discussed in Section 7.3.1, Ex. F3-T4-S1) that relates solely to current employees. CSC represents the cost of the pension/OPEB benefit deemed to be accrued by current employees in the year.

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Board Staff Interrogatory #074

Ref: Ex. F4-T3-S1

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

Please provide the aggregate compensation costs (inclusive of Total Wages, Benefits, Pension/OPEB) in a table over the 2007-2012 period broken down in terms of Nuclear, Hydroelectric, allocated Corporate and Total.

Response

The information requested is found in the following table.

$M

Organization	2007	2008	2009	2010	2011	2012
Nuclear	1,187.90	1,206.13	1,265.01	1,243.41	1,196.23	1,210.84
Regulated Hydro	42.29	45.14	45.47	47.87	50.36	52.73
Allocated Corporate Support	122.19	125.95	128.85	131.41	135.15	138.59
TOTAL REGULATED COSTS	1,352.38	1,377.22	1,439.33	1,422.69	1,381.74	1,402.16

Note 1: Includes total wages, benefits, current service cost component of the Pension/OPEB costs and annual incentives.

The bigger changes that we have made have been things like increasing pension contributions from employees. That has happened since 2002 on all three groups, as well as a reduction in benefits from management group and the Society on things like over-the-counter drugs, the non life-sustaining over-the-counter drugs and a cap on dispensing fees for prescription drugs.

So those kinds of things have been done, in addition to the normal administrative pieces that try and make the plan more effectively managed.

MR. FAYE: Can I just have a quick follow-up on that? I think you heard you say that you compensate for over-the-counter drugs?

MS. IRVINE: The PWU has provision for over-the-counter drugs in its collective agreement currently. The other two do not anymore.

MR. FAYE: Okay. Just so I understand, these are things like analgesics, Anacin, that kind of stuff?

MS. IRVINE: Correct.

MR. FAYE: Okay, thank you.

MR. KEIZER: I believe that completes VECC No. 7. Moving on to VECC No. 8.

MS. IRVINE: The question is asking: How does OPG manage to retain staff given that, if you look at the market studies at a total compensation basis, we are under market, for the most part?

And the reason for that is that we have an engaged work force. We are one of the top 100 employers in the

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Undertaking

To provide the savings that resulted from eliminating the over-the-counter drug benefit.

Response

The annual savings to OPG from the removal of non-life sustaining over-the counter drugs benefit for the Society was $556,000 in 2005.

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Board Staff Interrogatory #080

Ref: Ex. F4-T3-S1, pages 14-15

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

In section 6.2 (Benchmarking), it discusses the Agency Review Panel Report which recommended that OPG use a group of public sector and private sector organizations for comparing compensation levels. In response to this recommendation, 24 private and public sector organizations that are *"similar in asset size and organization scope as OPG"* were identified and Chart 10 provides a list of the Agency Review Panel Comparator Group. Staff notes that 50% of the public sector organizations used (6 of 12) are in the health care sector where governments have been attempting to get costs under control for many years.

a) Why does OPG believe the use of a disproportionate share of organizations in the health care sector is appropriate to assess whether compensation levels are appropriate at an electric utility?

b) Does OPG believe this is consistent with the intent of the Agency Review Panel Report?

c) What actions has OPG undertaken to comply with the Agency Review Panel Report recommendations?

Response

a) OPG notes that no evidence is provided to support the statement in the preamble about Government policy with respect to salaries in the health care sector.

   OPG also disagrees with the suggestion that Mercer has inappropriately structured the comparator group. OPG used the recommendations of the Agency Panel Review to establish the comparators that Mercer was instructed to use and the resulting comparator group complies with the Agency Review Panel Report.

   The recommendation from the Agency Panel Review Report with respect to compensation benchmarking comparators is as follows:

   > "Have careful regard for appropriate comparator organizations in the public and private sectors of similar size, scope and complexity." (page 19)

The Panel further suggested that the comparators be 50 per cent from the public sector and 50 per cent from the private and that the target market level should be the 50th percentile. There are few public sector organizations in Ontario that are large, unionized, require highly technical skills and operate on a 24/7/365 basis. Large organizations in the health care sector are among the few public sector employers that meet these conditions.

b) Yes, as per the response above.

c) OPG has implemented the recommendations of the Agency Review Panel via the following:

- OPG's Board of Directors ("OPG Board") made changes to the balance of public and private sector comparator selections and market positioning at the 50th percentile, with appropriate consideration to public sector and private sector organizations that have large complex operations and assets.

- OPG's Board engaged, and continues to engage, independent third parties on compensation matters.

- OPG's Compensation and Human Resources Committee is comprised of independent directors who are seasoned executives with financial expertise, and knowledge and experience with regard to human resources and compensation issues.

- Finally, OPG continues to enhance compensation transparency by providing compensation disclosure annually both on its website and through the Public Sector Salary Disclosure Act ("PSSDA").

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SEC Interrogatory #037

Ref: Ex. F4-T3-S1

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

a) Please provide a list of the corporate attributes that were used by Mercer Consulting to choose the OPG Comparator group.

b) Were the prospective comparator groups discussed with OPG management. If so did OPG request any changes to the originally proposed comparator group. If so please provide the original comparator group proposed by Mercer.

c) Please explain the reasons for using a Comparator group composed of 50 per cent public companies.

d) Please explain why no U.S. nuclear operators were included in the study.

e) Please explain the 50% weighting for health sector employers and the absence of other larger public employers like Universities and Provincial and Federal Governments or agencies.

Response

a) The corporate attributes used were as per the recommendation from the Agency Review Panel as found in their 2007 report. The Agency Review Panel further suggested that the comparators be 50 per cent from the public sector and 50 per cent from the private and that the target market level should be the 50th percentile. The recommendation is as follows:

> Have careful regard for appropriate comparator organizations in the public and private sectors of similar size, scope and complexity. (p. 19)

b) The comparators used in the 2009 benchmarking study were provided to Mercer by OPG.

c) Following the Agency Review Panel's recommendation, 50 per cent public companies was used to structure the comparator group.

d) Only organizations in Ontario were used as comparators in keeping with the Agency Review Panel's recommendations.

e) There are few public sector organizations in Ontario that are large, unionized, require highly technical skills and operate on a 24/7/365 basis. Some organizations in the health care sector do meet these conditions.

VECC Interrogatory #024

Ref: Ex. F4-T3-S1, page 11, and Figure 1, Attachment 1

Issue Number: 6.8
Issue: Are the 2011 and 2012 human resource related costs (wages, salaries, benefits, incentive payments, FTEs and pension costs) appropriate?

Interrogatory

The evidence at page 11 states:

> "When reviewing management and executive compensation, OPG gathers information from a listing of 24 companies that represent Canadian industries in both the public and private sector. In 2008 and 2009, OPG compared its compensation and benefits program to the 50th percentile of this market. Overall, the compensation and benefits program and employees actual pay are competitive with the external market. Figure 1 in Attachment 1 presents OPG's current market position."

a) Please provide a chart similar to Figure 1 for the year 2008.

b) Please provide the information gathered by OPG for 2008 and 2009 that shows OPG's comparisons for 2008 and 2009 to the 50th percentile of the market re compensation and benefits program.

c) Please provide a list of the companies surveyed by OPG or Mercer for 2008 if it differs from the 2009 sample.

Response

a) See Attachment 1.

b) The charts provided for 2008 and 2009 compare OPG wages and benefits against the 50th percentile of the comparator market.

c)

2008 Comparator Group	
Private Sector	**Public Sector**
Air Canada	Atomic Energy of Canada Ltd
Atco Ltd	BC Hydro
Canadian Natural Resources	Canada Post
Canadian Pacific Railway Ltd	Canadian Broadcasting Corporation
Enbridge Inc	University Health Network
Husky Energy	
Nexen Inc.	
Talisman Energy	
TransAlta Corp	
TransCanada Corp.	

In addition this group of organizations, the following were included for band A-C analysis [1]:

Private Sector	Public Sector [2]
Canadian National Rail	Hydro One
Nova Chemicals Corp	Sunnybrook Hospital
	The Hospital for Sick Children
	Trillium Health Network
	Mount Sinai

(1) Excluding SVP, Human Resources & Chief Ethics Officer
(2) Data is available from provincial public salary disclosure for the CEO and CFO positions only.

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IMPACT STATEMENT

This exhibit has been prepared to show the impact of three changes since OPG filed its application in May 2010. The three changes are:

1. Increased fees for 2011 and 2012 from the Canadian Nuclear Safety Commission ("CNSC") which impact Nuclear Base OM&A;
2. Changes to Management compensation as a result of the *Public Sector Compensation Restraint to Protect Public Services Act, 2010* (the "Public Sector Compensation Restraint Act"); and
3. Changes to forecast pension and other post employment benefit ("OPEB") costs, primarily as a result of changes to forecasts of discount rates and actual pension fund performance.

Each of these matters is described separately below.

<u>CNSC Fees</u>

As indicated in the response to interrogatory L-12-027, OPG has been informed by the CNSC of increased regulatory fees for the test period. Licensing costs include the cost of CNSC staff directly involved with OPG issues, as well as an allocation for the associated regulatory support effort, indirect regulatory activities and overheads. The drivers of the increased fees include: alignment of regulatory practices to International Atomic Energy Agency guidance documents; the demand for CNSC attention to planning for industry-wide refurbishment activities and new nuclear; and the CNSC need to recruit and train staff to meet the anticipated demands.

The estimated revenue requirement impact of the increase in CNSC fees is $13M over the test period.

<u>Management Compensation</u>

The Public Sector Compensation Restraint Act was introduced after OPG's business plan for

2010-2014 had been approved. The Act addresses restrictions to increases in compensation for employees that do not collectively bargain compensation. For OPG, the Public Sector Compensation Restraint Act will impact Management employees.

As indicated in interrogatory L-01-075, OPG included an increase of 3 per cent in each of 2011 and 2012 in its Management compensation levels. As a result of the *Public Sector Compensation Restraint Act*, OPG is removing Management wage escalation for the period to April 1, 2012 from its test period revenue requirement for the regulated facilities, reducing costs by $12M.

Pension and OPEB Costs

As discussed in section 6.3.2 of Ex. F4-T3-S1, the projection of pension and OPEB costs requires an estimate of the value of the benefit obligations and the pension fund assets. Pension and OPEB costs are subject to significant variability to the extent that forecast assumptions, such as the discount rates, and assumed pension fund performance are different from actual values as of the end of the year preceding the forecast year.

The pension and OPEB costs forecasts in OPG's application for 2011 and 2012 were based on discount rates (presented in Chart 8 of Ex. F4-T3-S1) forecast during the 2010-2014 business planning process. Since the beginning of 2010, these discount rates have declined significantly. This decline has caused an increase in the forecast pension and OPEB costs for the test period. Specifically, the discount rates used to project pension, other post retirement benefits and the long-term disability plan costs have decreased from 6.80%, 7.00% and 5.25%, respectively, to 5.70%, 5.70% and 4.40%, respectively, as of the end of August 2010. The updated estimates of discount rates were provided by external actuaries.

Chart 8 of Ex. F4-T3-S1 also shows that pension cost forecasts were based on assumed rates of return on the pension fund assets of 9.0% in 2009 and 7.0% in 2010. The actual return for 2009 was approximately 15%, and the 2010 actual return as of the end of August 2010 is approximately 2.5%. The net effect of the updated returns for the two years is to offset, in part, the increase in pension costs due to changes in forecast discount rates.

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OPG's updated total pension and OPEB costs for 2011 and 2012 have been projected by external actuaries as of the end of August 2010. The chart below shows the portion of these updated costs for 2011 and 2012 attributable to the prescribed facilities, as compared to the amounts included in the application per Ex. F4-T3-S1, Chart 9. The total projected increase over the two test years is $251.5M for nuclear and $12.7M for regulated hydroelectric.

Updated Pension and OPEB Costs ($M)

	Nuclear		Regulated Hydroelectric	
	2011	**2012**	**2011**	**2012**
Pension Cost				
As per Chart 9, Ex. F4-T3-S1	114.0	162.8	5.8	8.1
Projection as of August 2010	210.2	245.9	10.6	12.3
Increase	96.2	83.1	4.8	4.2
OPEB Cost[1]				
As per Chart 9, Ex. F4-T3-S1	159.3	166.7	8.0	8.3
Projection as of August 2010	196.5	201.7	9.9	10.1
Increase	37.2	35.0	1.9	1.8
Total Test Period Increase	251.5		12.7	

[1]Supplementary pension plans costs are included with OPEB costs.

Conclusion

The first two changes considered in this impact statement are effectively offsetting and OPG does not propose to revise its revenue requirement or payment amounts to reflect them.

Given the potential for significant variability between the updated forecast and actual pension and OPEB costs, OPG is not proposing to revise its proposed payment amounts or payments riders to address the projected increase in these costs. Instead, OPG proposes to address the forecast change to pension and OPEB costs by requesting that the OEB establish a variance account to record the revenue requirement impact of differences

Memorandum of Agreement

BETWEEN

Her Majesty the Crown In Right of Ontario (the "Shareholder")

And

Ontario Power Generation ("OPG")

Purpose

This document serves as the basis of agreement between Ontario Power Generation Inc. ("**OPG**") and its sole Shareholder, Her Majesty the Queen in Right of the Province of Ontario as represented by the Minister of Energy (the "**Shareholder**") on mandate, governance, performance, and communications. This agreement is intended to promote a positive and co-operative working relationship between OPG and the Shareholder.

OPG will operate as a commercial enterprise with an independent Board of Directors, which will at all times exercise its fiduciary responsibility and a duty of care to act in the best interests of OPG.

A. Mandate

1. OPG's core mandate is electricity generation. It will operate its existing nuclear, hydroelectric, and fossil generating assets as efficiently and cost-effectively as possible, within the legislative and regulatory framework of the Province of Ontario and the Government of Canada, in particular, the Canadian Nuclear Safety Commission. OPG will operate these assets in a manner that mitigates the Province's financial and operational risk.

2. OPG's key nuclear objective will be the reduction of the risk exposure to the Province arising from its investment in nuclear generating stations in general and, in particular, the refurbishment of older units. OPG will continue to operate with a high degree of vigilance with respect to nuclear safety.

3. OPG will seek continuous improvement in its nuclear generation business and internal services. OPG will benchmark its performance in these areas against CANDU nuclear plants worldwide as well as against the top quartile of private and publicly- owned nuclear electricity generators in North America. OPG's top operational priority will be to improve the operation of its existing nuclear fleet.

4. With respect to investment in new generation capacity, OPG's priority will be hydro- electric generation capacity. OPG will seek to expand, develop and/or improve its hydro- electric generation capacity. This will include expansion and redevelopment on its existing sites as well as the pursuit of new projects where feasible. These investments will be taken by OPG through partnerships or on its own, as appropriate.

5. OPG will not pursue investment in non-hydro-electric renewable generation projects unless specifically directed to do so by the Shareholder.

6. OPG will continue to operate its fossil fleet, including coal plants, according to normal commercial principles taking into account the Government's coal replacement policy and recognizing the role that fossil plants play in the Ontario electricity market, until government regulation and/or unanimous shareholder declarations require the closure of coal stations.

7. OPG will operate in Ontario in accordance with the highest corporate standards, including but not limited to the areas of corporate governance, social responsibility and corporate citizenship.

8. OPG will operate in Ontario in accordance with the highest corporate standards for environmental stewardship taking into account the Government's coal replacement policy.

B Governance Framework

The governance relationship between OPG and the Shareholder is anchored on the following:

1. OPG will maintain a high level of accountability and transparency:

   - OPG is an *Ontario Business Corporations Act* ("OBCA") company and is subject to all of the governance requirements associated with the OBCA.
   - OPG is also subject to the *Freedom of Information and Protection of Privacy Act*, the *Public Sector Salary Disclosure Act* and the *Auditor General Act*.
   - OPG's regulated assets will be subject to public review and assessment by the Ontario Energy Board.
   - OPG will annually appear before a committee of the Legislature which will review OPG's financial and operational performance.

2. The Shareholder may at times direct OPG to undertake special initiatives. Such directives will be communicated as written declarations by way of a Unanimous Shareholder Agreement or Declaration in accordance with Section 108 of the OBCA, and be made public within a reasonable timeframe.

C. Generation Performance and Investment Plans

1. OPG will annually establish 3 –5 year performance targets based on operating and financial results as well as major project execution. Key measures are to be agreed upon with the Shareholder and the Minister of

Finance. These performance targets will be benchmarked against the performance of the top quartile of electricity generating companies in North America.

2. Benchmarking will need to take account of key specific operational and technology factors including the operation of CANDU reactors worldwide, the role that OPG's coal plants play in the Ontario electricity market with respect to load following, and the Government of Ontario's coal replacement policy.

3. OPG will annually prepare a 3 – 5 year investment plan for new projects.

4. Once approved by OPG's Board of Directors, OPG's annual performance targets and investment plan will be submitted to the Shareholder and the Minister of Finance for concurrence.

D. Financial Framework

1. As an OBCA corporation with a commercial mandate, OPG will operate on a financially sustainable basis and maintain the value of its assets for its shareholder, the Province of Ontario.

2. As a transition to a sustainable financial model, any significant new generation project approved by the OPG Board of Directors and agreed to by the Shareholder may receive financial support from the Province of Ontario, if and as appropriate.

E. Communication and Reporting

1. OPG and the Shareholder will ensure timely reports and information on major developments and issues that may materially impact the business of OPG or the interests of the Shareholder. Such reporting from OPG should be on an immediate or, at minimum, an expedited basis where an urgent material human safety or system reliability matter arises.

2. OPG will ensure the Minister of Finance receives timely reports and information on multi-year and annual plans and major developments that may have a material impact on the financial performance of OPG or the Shareholder.

3. The OPG Board of Directors and the Minister of Energy will meet on a quarterly basis to enhance mutual understanding of interrelated strategic matters.

4. OPG's Chair, President and Chief Executive Officer and the Minister of Energy will meet on a regular basis, approximately nine times per year.

5. OPG's Chair, President and Chief Executive Officer and the Minister of Finance will meet on an as needed basis.

6. OPG's senior management and senior officials of the Ministry of Energy and the Ministry of Finance will meet on a regular and as needed basis to discuss ongoing issues and clarify expectations or to address emergent issues.

7. OPG will provide officials in the Ministry of Energy and the Ministry of Finance with multi-year and annual business planning information, quarterly and monthly financial reports and briefings on OPG's operational and financial performance against plan.

8. In all other respects, OPG will communicate with government ministries and agencies in a manner typical for an Ontario corporation of its size and scope.

F. Review of this Agreement

This agreement will be reviewed and updated as required.

Dated: the 17th day of August, 2005

On Behalf of OPG:

Jake Epp
Chairman
Board of Directors

On Behalf of the Shareholder:

Her Majesty the Queen in Right of
the Province of Ontario as
represented by the Minister of Energy,
Dwight Duncan

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Board Staff Interrogatory #087

Ref: Ex. F3-T1-S1, Table 1

Issue Number: 6.9
Issue: Are the "Centralized Support and Administrative Costs" (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

In the application, certain corporate functions have been benchmarked such as Finance and Human Resources. In terms of OM&A costs, those two functions have either declined or remained relatively stable over the five year period in the application. In contrast, Corporate Affairs has increased 27% and Corporate Centre has increased 46% over the five year period.

a) Given OPG was preparing an OEB application in 2007 (i.e., also a factor at that time), please explain why these two areas have increased to such a degree.

b) In addition, has OPG ever undertaken to benchmark its aggregate Corporate Costs against other utilities given the Nuclear Phase 1 Benchmarking Report (Ex. F5-T1-S1) identifies one of the key drivers affecting OPG Nuclear's Total Generating Cost performance gap to be Corporate Costs? If so, please provide the results. If not, please explain why.

Response

a) While the total cost of the Corporate Centre increased by 46 per cent over the five year period in the Application, a significant portion of the increase is related to the unregulated business and is not allocated to either regulated hydro or nuclear. For the regulated business the increase is 24 per cent over the five year period. This increase is mainly due to an increase in legal expenses in support of the OEB rate application. The increase when comparing the period from 2007 – 2011, both years without payment amount hearings (actual or expected), is an increase of 12 per cent.

   Corporate Affairs has increased by 27 per cent over the five year period. The 27 per cent increase is mainly due to cost associated with the OEB process (11 per cent), economic increases (13 per cent) and the addition of the Nuclear Generation Development group in Public Affairs (3.5 per cent). These increases are slightly offset by net reductions in other areas.

b) OPG has not undertaken to benchmark its aggregate corporate costs against other utilities. OPG's approach is to concentrate on benchmarking the corporate groups which have a significant impact in relation to total OPG costs. This approach is consistent with the EB-2007-0905 Decision which directed OPG to continue with its benchmarking activities in the corporate areas it has identified. The three areas identified by OPG where benchmarking will continue to be performed are Information Technology, Finance and Human Resources. Together, these areas represent 70 per cent of the total corporate costs.

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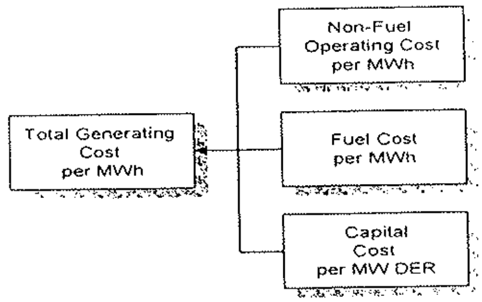
Diagram of Summary Relationship of Value for Money Metrics



Capital cost is reported on a capital cost per MW DER basis individually; because that is the most appropriate benchmarking metric (output or MWh are not appropriate values to normalize for capital investment). When totaled to calculated total generating cost per MWh, the denominator for capital cost is changed to MWh to maintain consistency of units.

Capital costs per MW DER: The benchmark data indicates that OPG per unit capital spending is the lowest in North America with Darlington, Pickering A and Pickering B all performing within the best quartile for the panel. Lower capital costs could be in part due to the application of the capitalization policy at OPG for purposes of classifying projects as capital or OM&A or due to the use of higher capitalization threshold at OPG than at most other plants in the panel. When OPG OM&A projects are added to capital expenditures, the resulting total is more consistent with the per unit capital spending of other plants in the EUCG panel.

As a result, the benchmark data suggests that the lower capital costs results in higher non-fuel operating cost per MWh. In other words, the impact of low capital project costs offset by high OM&A projects costs results in OM&A expenses appearing slightly higher against benchmark plants and capital expenditures appearing lower against benchmark plants.

The best way to address this difference is to utilize total generating cost per MWh (i.e. the sum of non-fuel operating cost, fuel cost, and capital cost) as the primary financial benchmark to eliminate any unintended impact of the capitalization policy on total operating cost per MWh.

Fuel costs per MWh: Fuel cost, primarily driven by the technological differences in CANDU technology, are lower for OPG than for most North American PWR/BWR reactors. CANDUs do not require enriched uranium like BWRs and PWRs and, as a result, experience lower fuel costs. This provides a significant advantage for OPG in this cost category. Fuel cost per MWh for Darlington, Pickering A, and Pickering B are each approximately $2.30/MWh better than the best quartile value for this metric.

Non-fuel operating costs per MWh: Performance in non-fuel operating cost per MWh drives the majority of OPG financial performance. Removing OPG's advantages in fuel costs and capital costs reveals relatively poor financial performance at all three OPG facilities with respect to non-fuel operating cost per MWh. Specific drivers of performance vary from station to station and will be discussed in more detail later in the report, but overall the biggest drivers are; capability factor, station size, CANDU technology, corporate cost allocation and potential controllable costs. In more detail:

Factors Contributing to Performance – 3-Year Total Generating Cost per MWh (Cont'd)

Darlington

- As stated above, fuel cost per MWh and capital cost per MW DER performed within the best quartile for Darlington while the non-fuel operating cost per MWh performed worse than median
- The largest drivers of performance gap for Darlington are CANDU technology, corporate allocations and potential controllable costs
- Due to strong generation performance at Darlington, capability factor does not contribute negatively to performance.
- Station size actually provides an overall advantage for Darlington (due to 4 relatively large units), it does not contribute negatively to performance

Pickering A

- As stated above, fuel cost per MWh and capital cost per MW DER performed within the best quartile for Pickering A while the non-fuel operating cost per MWh performed worse than median
- The overall largest driver of cost per MWh for Pickering A during the review period is capability factor
- Station size also negatively impacts cost per MWh for Pickering A (primarily driven by relatively small units)
- The remaining large drivers of cost performance at Pickering A include CANDU technology, corporate cost allocations, and potential controllable costs

Pickering B

- As stated above, fuel cost per MWh and capital cost per MW DER performed within the best quartile for Pickering B while the non-fuel operating cost per MWh performed worse than median
- Like Pickering A, the overall largest driver of cost per MWh for Pickering B over the review period is capability factor
- Station size also negatively impacts cost per MWh for Pickering (primarily driven by relatively small units)
- The remaining large drivers of cost performance at Pickering B include CANDU technology, corporate cost allocations, and potential controllable costs

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.

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The Board expects the next independent review to include an evaluation of the cost allocation methodology and consideration of the Board's "3-prong test". This test was addressed in the Board's decision for Enbridge Gas Distribution 2006 rates.[34] That decision stated:

> The 3-prong test was defined in the Board's Decision in EBRO 493/494 and can be summarized as follows:
>
> > Cost incurrence: Were the corporate centre charges prudently incurred by, or on behalf of, the companies for the provision of services required by Ontario ratepayers?
> >
> > 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?
> >
> > Cost/Benefit: Did the benefits to the Company's Ontario ratepayers equal or exceed the costs?
>
> The costs must pass all three tests. If a service, or the scope of service, is not needed by the gas distribution utility, then the cost should not be recovered from ratepayers. This is so even if the benefits may exceed the costs in question.[35]

The Board encourages OPG to continue with its benchmarking activities in the corporate areas it has identified. While it is often advisable to consult with intervenors where practicable in these activities, the Board will not require OPG to involve intervenors in these activities at this time.

4.2 Corporate Costs – Regulatory Affairs

CCC submitted that OPG's regulatory affairs budget for 2009 should be reduced by 50% because the 2008 budget, which included preparation of studies to support the application, is not an appropriate baseline for the 2009 budget. CCC stated that a variance account could be established to capture deviations from budget. SEC noted the 85% increase in the Corporate Affairs budget between 2006 and 2008, and submitted that costs for consultants and purchased services for regulatory affairs should be subject to deferral account treatment because many of these fees are beyond OPG's control and the timing of the next rate proceeding is uncertain.

[34] EB-2005-0001/EB-2005-0437, *Decision with Reasons*, February 9, 2006.

[35] Ibid., pp. 79-80.

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Board Staff Interrogatory #086

Ref: Ex. F3-T1-S1

Issue Number: 6.9
Issue: Are the "Centralized Support and Administrative Costs" (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

The application notes that about 70% of Corporate Costs are allocated to the regulated businesses and therefore about 70% of those costs are recovered through the regulated payment amounts. The Nuclear Phase 1 Benchmarking Report (Ex. F5-T1-S1) identifies one of the key drivers affecting OPG Nuclear's Total Generating Cost performance gap to be Corporate Costs. A business plan has been provided for the Nuclear and Hydroelectric businesses. Please provide the business plan relating to Corporate Costs.

Response

Ex. F3-T1-S1, page 2 notes that "budgets for OPG's corporate groups are established through the corporate business planning process." During this process, the corporate groups develop their budgets based on guidelines established in the business plan instructions (Ex. A2-T2-S1, page 10). These budgets are reviewed by the Chief Executive Officer ("CEO") in the context of OPG's overall projected costs for the company. The individual corporate function budgets undergo the same level of executive scrutiny as the generation business unit plans and they are held to the same level of accountability for achieving financial and operational targets as the generating business units.

Business plan documents for the corporate functions are not prepared for OPG's Board of Directors ("OPG Board") as part of the business plan approval. Instead, the corporate groups' budgets, once reviewed and approved by CEO, are incorporated into the consolidated OPG business planning and financial information approved by OPG Board.

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VECC Interrogatory #025

Ref: Ex. F3-T1-S2

Issue Number: 6.9
Issue: Are the "Centralized Support and Administrative Costs" (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

With respect to total Corporate Support and Administrative Costs allocated between regulated and unregulated operations, please provide a table showing total costs budgeted/actual broken down by corporate group (as per tables 1 and 2) for each year 2007-2012 inclusive.

Response

Please see the requested table below.

Comparison of Corporate Support & Administrative Costs ($M)

OPG

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	Finance	58.6	(0.2)	58.4	(0.3)	58.1	(4.8)	62.9
2	Corporate Affairs	24.6	(1.3)	23.3	5.9	29.2	(8.4)	37.6
3	Business Services & IT[1]	221.0	(7.0)	214.0	(6.6)	207.4	(31.6)	239.0
4	Corporate Centre[2]	21.5	(2.3)	19.2	2.3	21.5	(1.3)	22.8
5	Energy Markets	23.2	(3.2)	20.0	0.2	20.2	(1.3)	21.5
6	Human Resources	54.6	(3.4)	51.2	2.0	53.2	0.8	52.4
7	Total	403.5	(17.4)	386.1	3.5	389.6	(46.6)	436.2

Line No.	Corporate Group	2008 Actual	(c)-(a) Change	2009 Actual	(c)-(e) Change	2009 Budget
		(a)	(b)	(c)	(d)	(e)
8	Finance	58.1	2.4	60.5	(3.7)	64.2
9	Corporate Affairs	29.2	(2.5)	26.7	(11.0)	37.7
10	Business Services & IT[1]	207.4	(0.2)	207.2	(29.5)	236.7
11	Corporate Centre[2]	21.5	(2.2)	19.3	(3.6)	22.9
12	Energy Markets	20.2	0.2	20.4	(1.5)	21.9
13	Human Resources	53.2	0.6	53.8	0.0	53.8
14	Total	389.6	(1.7)	387.9	(49.3)	437.2

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	Finance	60.5	(0.1)	60.4	(0.1)	60.3	0.2	60.5
16	Corporate Affairs	26.7	7.1	33.8	(3.3)	30.5	2.8	33.3
17	Business Services & IT[1]	207.2	(1.9)	205.3	2.8	208.1	(0.4)	207.7
18	Corporate Centre[2]	19.3	6.9	26.2	0.3	26.5	1.6	28.1
19	Energy Markets	20.4	1.6	22.0	(0.8)	21.2	0.3	21.5
20	Human Resources	53.8	0.2	54.0	0.8	54.8	0.4	55.2
21	Total	387.9	13.8	401.7	(0.3)	401.4	4.9	406.3

1 Formerly Chief Information Office (CIO)

2 Corporate Centre includes Executive Office, Corporate Secretary, and Law.

Board Staff Interrogatory #103

Ref: Ex. F3-T1-S2

Issue Number: 6.9
Issue: Are the "Centralized Support and Administrative Costs" (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

The Board in its 2008-2009 Decision did not make any adjustments to the Regulatory Affairs budget on the clear expectation that OPG would be shortly filing another application.

In that OPG decided to defer the filing of the Payment Amounts application to 2010, the evidence indicates that inter-period variances in corporate support costs are in part due to Regulatory Affairs related activity.

Please complete the table below (feel free to add, as appropriate, to the Item listing).

Response

In the table below, OPG provides historical actual and forecast information. OPG is unable to complete the "Board Approved" columns because OPG did not present, and therefore the OEB could not have approved, forecasts for the individual components of Regulatory Affairs costs in 2008 and 2009.

The amounts in the table below represent the costs attributable to regulated hydroelectric and nuclear businesses. As well, legal costs included in the table are incurred and budgeted by Law Division and do not form part of Regulatory Affairs budget.

Regulatory Affairs										
(in thousands)		(a)	(b)		(c)	(d)		(e)	(f)	(g)
ITEM	2007 Actual	2008 Board Approved	2008 Actual	variance (b)-(a)	2009 Board Approved	2009 Actual	variance (d) - (c)	2010 Budget	2011 Plan	2012 Plan
Recurring Costs										
sal/wages, operating expenses	2,376		2,097			2,531		3,039	3,129	3,291
EB-2007-0905										
legal costs	296		615							
expert witnesses/consultants	90		493							
intervenor cost awards			1,407							
section 30			223			5				
other										
total	386		2,737			5		0	0	0
EB-2010-0008										
legal costs								1,500		
expert witnesses/consultants						124		1,250		
intervenor cost awards								1,890		
section 30										
other										
total						124		4,640	0	0
Other Regulatory Proceedings										
legal costs						241			500	1,500
expert witnesses/consultants						5			800	1,150
intervenor cost awards	100					59			300	1,985
section 30										
other	52		108			138		134	127	144
total	152		108			443		134	1,727	4,779
OEB Annual Assessment			345			944		980	1,500	1,500
Other										
total										
Grand total	2,914	0	5,287	0	0	4,046	0	8,793	6,356	9,570

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MR. BARRETT: Yes. This interrogatory asked us to produce a table which would break the regulatory affairs budget down into amounts, budget amounts related to specific cases, historically.

We cannot provide that table. That is not how we budget.

MR. BATTISTA: Could you give us a short synopsis of how you do budget your regulatory...

MR. BARRETT: We budget on cost categories, rather than with reference to specific application.

So for example, we would have consultants, intervenor costs, OEB fees, but we wouldn't have those specifically budgeted with reference to individual applications.

MR. BATTISTA: So you would have no sense, perhaps, what you expect the prior proceeding, EB-2007-- I should know the number -- 0905?

MR. BARRETT: We have actual data related to that application and we have provided that. It is just that we don't budget that way. You had asked for the budget amounts and then a variance analysis, but we don't budget that way, so we can't produce the variance analysis.

MR. KEIZER: Then moving on to Board Staff question No. 29 --

MR. SHEPHERD: Excuse me. I was trying to get the button to work.

MR. KEIZER: Oh, sorry.

MR. SHEPHERD: Maybe I misunderstood this question, 28.

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Board Staff Interrogatory #090

Ref: Ex. F5-T2-S1

Issue Number: 6.9
Issue: Are the "Centralized Support and Administrative Costs" (which include Corporate Support and Administrative Service Groups, Centrally Held Costs and Hydroelectric Common Services) and the allocation of the same to the regulated hydroelectric business and nuclear business appropriate?

Interrogatory

a) Please populate the following table (see attached)
b) Please prepare and populate a similar table for 2011
c) Please prepare and populated a similar table for 2012

Centralized Support and Adminstrative Costs							
($ in thousands)	2010 Budget	Amount allocated and/or assigned and /or distributed					
		Unregulated Business Units		Regulated Hydroelectric		Regulated Nuclear	
		%	$	%	$	%	$
Human Resources Group	$ 54,000						
Executive Office	$ 5,563						
Law	$ 11,094						
Corporate Secretariat	$ 4,280						
COO	$ 5,281						
	$ 26,218						
Finance Group							
Controllership	$ 47,940						
Treasury	$ 3,457						
Risk Services	$ 3,602						
Internal Audit	$ 4,132						
CFO Office	$ 1,285						
	$ 60,416						
Coporate Affairs Group							
Sustainable Development	$ 2,972						
E8	$ 750						
Emergency Preparedness	$ 3,468						
Public Affairs	$ 16,615						
Regulatory Affairs / Strategic Planning	$ 8,739						
SVP Office	$ 1,291						
	$ 33,835						
Business Services & IT	$163,600						
Energy Markets Group	$ 22,000						
Real Estate							
Real Estate Services	$ 13,789						
Business Services	$ 18,017						
Facilities Services	$ 9,137						
Fleet Services	$ 306						
Vice President's Office	$ 417						
	$ 41,666						
Total Corporate Support & Administration	**$401,735**						
Centrally Held Costs							
Pension/OPEB							
OPG wide Insurance							
Nuclear Insurance							
Performance Incentives							
IESO Non Energy Charge							
SR&ED Tax Credits							
Other							
	$260,849						
Hydroelectric Common Support Costs							
Hydroelectric Buiness Unit	$ 32,352						
Ottawa-St. Lawrence Support	$ 5,937						
	$ 38,289						
Grand Total	**$700,873**						

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Response

a)

Centralized Support and Adminstrative Costs							
($ in thousands)	2010 Budget	Amount allocated and/or assigned and /or distributed					
		Unregulated Business Units		Regulated Hydroelectric		Regulated Nuclear	
		%	$	%	$	%	$
Human Resources Group	$ 54,012	29%	15,532	4%	2,223	67%	36,257
Corporate Centre Group							
Executive Office	$ 5,563	27%	1,506	3%	192	69%	3,864
Law	$ 11,094	36%	3,955	14%	1,571	50%	5,568
Corporate Secretariat	$ 4,280	27%	1,159	3%	148	69%	2,973
Corporate Business Develop	$ 5,281	100%	5,281	0%		0%	
	$ 26,217	45%	11,901	7%	1,910	47%	12,406
Finance Group							
Controllership	$ 47,941	36%	17,179	6%	2,864	58%	27,898
Treasury	$ 3,457	25%	864	2%	72	73%	2,521
Risk Services	$ 3,602	51%	1,838	8%	305	41%	1,459
Internal Audit	$ 4,132	27%	1,117	4%	156	69%	2,859
CFO Office	$ 1,286	30%	390	4%	57	65%	838
	$ 60,417	35%	21,388	6%	3,454	59%	35,575
Coporate Affairs Group							
Sustainable Development	$ 2,972	45%	1,350	14%	417	41%	1,206
E8	$ 750	27%	203	3%	26	69%	521
Emergency Preparedness	$ 3,468	25%	858	7%	254	68%	2,356
Public Affairs	$ 16,615	35%	5,813	12%	1,990	53%	8,812
Regulatory Affairs / Strategic Planning	$ 8,739	17%	1,446	38%	3,278	46%	4,015
SVP Office	$ 1,291	35%	450	5%	66	60%	775
	$ 33,835	30%	10,121	18%	6,030	52%	17,684
Business Services & IT	$ 163,458	28%	45,566	5%	7,527	68%	110,365
Energy Markets Group	$ 21,990	74%	16,337	11%	2,339	15%	3,314
Real Estate							
Real Estate Services	$ 13,789	16%	2,180	8%	1,055	77%	10,555
Business Services	$ 18,017	19%	3,382	3%	573	78%	14,061
Facilities Services	$ 9,127	30%	2,755	0%	44	69%	6,328
Fleet Services	$ 306	24%	75	4%	12	72%	219
Vice President's Office	$ 417	36%	150	3%	14	61%	253
	$ 41,655	21%	8,542	4%	1,698	75%	31,416
Total Corporate Support & Admir	**$ 401,584**	32%	**129,388**	6%	**25,181**	62%	**247,015**
Centrally Held Costs							
Pension/OPEB	$ 118,500	22%	26,100	4%	4,400	74%	88,000
OPG wide Insurance	$ 16,900	64%	10,800	17%	2,800	20%	3,300
Nuclear Insurance	$ 8,600	0%		0%		100%	8,600
Performance Incentives	$ 45,800	24%	11,100	5%	2,300	71%	32,400
IESO Non Energy Charge	$ 54,700	33%	18,300	18%	10,100	48%	26,300
SR&ED Tax Credits	-$ 10,000	13%	- 1,300	1%	- 100	86%	- 8,600
Other	$ 26,400	17%	4,600	3%	800	80%	21,000
	$ 260,900	27%	**$ 69,600**	8%	**$ 20,300**	66%	**$ 171,000**
Hydroelectric Common Support Costs							
Hydroelectric Buiness Unit	$ 32,352	72%	23,434	28%	8,918	0%	
Ottawa-St. Lawrence Support	$ 5,875	80%	4,729	20%	1,146	0%	
	$ 38,227	74%	**$ 28,163**	26%	**$ 10,064**	0%	**$ -**
Grand Total	**$ 700,711**	32%	**$ 227,151**	8%	**$ 55,545**	60%	**$ 418,015**

b)

Centralized Support and Adminstrative Costs								
($ in thousands)		2011 Budget	Amount allocated and/or assigned and /or distributed					
			Unregulated Business Units		Regulated Hydroelectric		Regulated Nuclear	
			%	$	%	$	%	$
Human Resources Group		$ 54,792	28%	15,413	4%	2,309	68%	37,070
Corporate Centre Group								
Executive Office		$ 6,511	25%	1,613	4%	262	71%	4,636
	Law	$ 10,296	38%	3,953	11%	1,140	51%	5,204
	Corporate Secretariat	$ 4,308	25%	1,067	4%	173	71%	3,067
	Corporate Bus Development	$ 5,384	100%	5,384	0%		0%	
		$ 26,498	45%	12,016	6%	1,575	49%	12,907
Finance Grouo								
	Controllership	$ 47,757	35%	16,749	6%	3,060	59%	27,948
	Treasury	$ 3,451	23%	801	2%	83	74%	2,567
	Risk Services	$ 3,640	50%	1,826	9%	314	41%	1,500
	Internal Audit	$ 4,231	27%	1,136	4%	162	69%	2,933
	CFO Office	$ 1,253	29%	365	5%	62	66%	827
		$ 60,330	35%	20,876	6%	3,680	59%	35,775
Coporate Affairs Group								
	Sustainable Development	$ 3,165	45%	1,423	14%	447	41%	1,295
	E8	$ 751	25%	186	4%	30	71%	535
	Emergency Preparedness	$ 1,000	25%	245	8%	75	68%	679
	Public Affairs	$ 17,000	34%	5,815	12%	2,002	54%	9,183
	Regulatory Affairs / Strategic Planning	$ 7,345	16%	1,186	38%	2,768	46%	3,391
	SVP Office	$ 1,266	30%	382	6%	73	64%	811
		$ 30,526	30%	9,237	18%	5,396	52%	15,893
Business Services & IT		$ 165,163	28%	45,790	5%	7,660	68%	111,713
Energy Markets Group		$ 21,220	74%	15,698	11%	2,325	15%	3,197
Real Estate								
	Real Estate Services	$ 14,496	16%	2,292	8%	1,109	77%	11,096
	Business Services	$ 18,370	18%	3,363	3%	595	78%	14,412
	Facilities Services	$ 9,406	30%	2,790	1%	52	70%	6,565
	Fleet Services	$ 317	24%	75	4%	13	72%	229
	Vice President's Office	$ 430	35%	150	3%	15	62%	266
		$ 43,020	20%	8,670	4%	1,783	76%	32,567
Total Corporate Support & Administration		**$ 401,649**	32%	**127,699**	6%	**24,727**	62%	**249,123**
Centrally Held Costs								
	Pension/OPEB	$ 145,400	22%	31,900	4%	5,400	74%	108,100
	OPG wide Insurance	$ 17,400	64%	11,200	16%	2,800	20%	3,400
	Nuclear Insurance	$ 11,300	0%		0%		100%	11,300
	Performance Incentives	$ 46,200	24%	11,200	5%	2,300	71%	32,700
	IESO Non Energy Charge	$ 62,800	33%	20,900	18%	11,600	48%	30,300
	SR&ED Tax Credits	-$ 10,000	12%	- 1,200	1%	- 100	87%	- 8,700
	Other	$ 28,100	19%	5,300	3%	900	78%	21,900
		$ 301,200	26%	**79,300**	8%	**22,900**	66%	**199,000**
Hydroelectric Common Support Costs								
	Hydroelectric Buiness Unit	$ 31,351	72%	22,643	28%	8,708	0%	
	Ottawa-St. Lawrence Support	$ 6,053	81%	4,874	19%	1,178	0%	
		$ 37,404	74%	27,518	26%	9,886	0%	
Grand Total		**$ 740,153**	32%	**234,516**	8%	**57,514**	61%	**448,123**

c)

Centralized Support and Adminstrative Costs

($ in thousands)		2012 Budget	Amount allocated and/or assigned and /or distributed					
			Unregulated Business Units		Regulated Hydroelectric		Regulated Nuclear	
			%	$	%	$	%	$
Human Resources Group		$ 55,348	28%	15,474	4%	2,301	68%	37,573
Corporate Centre Group								
Executive Office		$ 6,656	23%	1,557	4%	246	73%	4,853
	Law	$ 11,551	34%	3,980	14%	1,643	51%	5,929
	Corporate Secretariat	$ 4,332	23%	1,014	4%	160	73%	3,159
	Corporate Bus Development	$ 5,518	100%	5,518	0%		0%	
		$ 28,058	43%	12,068	7%	2,050	50%	13,940
Finance Group								
	Controllership	$ 48,819	34%	16,697	6%	3,055	60%	29,067
	Treasury	$ 2,387	33%	787	3%	77	64%	1,523
	Risk Services	$ 3,626	49%	1,789	8%	307	42%	1,530
	Internal Audit	$ 4,393	27%	1,174	4%	167	69%	3,051
	CFO Office	$ 1,300	28%	369	5%	62	67%	869
		$ 60,524	34%	20,816	6%	3,669	60%	36,039
Coporate Affairs Group								
	Sustainable Development	$ 3,229	45%	1,443	14%	454	41%	1,332
	E8	$ 1,073	23%	251	4%	40	73%	783
	Emergency Preparedness	$ 1,042	25%	256	7%	78	68%	708
	Public Affairs	$ 16,785	34%	5,791	12%	1,994	54%	9,000
	Regulatory Affairs / Strategic Planning	$ 9,603	16%	1,533	38%	3,613	46%	4,457
	SVP Office	$ 1,573	32%	510	5%	83	62%	980
		$ 33,305	29%	9,784	19%	6,263	52%	17,259
Business Services & IT		$ 164,638	28%	45,638	5%	7,687	68%	111,313
Energy Markets Group		$ 21,455	74%	15,811	11%	2,356	15%	3,288
Real Estate								
	Real Estate Services	$ 14,683	16%	2,321	8%	1,123	77%	11,239
	Business Services	$ 18,613	18%	3,319	3%	591	79%	14,704
	Facilities Services	$ 9,203	29%	2,694	1%	54	70%	6,455
	Fleet Services	$ 332	23%	77	4%	13	73%	242
	Vice President's Office	$ 448	34%	153	3%	15	62%	280
		$ 43,278	20%	8,564	4%	1,796	76%	32,918
Total Corporate Support & Administration		$ 406,606	32%	128,166	6%	26,121	62%	252,330
Centrally Held Costs								
	Pension/OPEB	$ 213,100	22%	46,800	4%	8,000	74%	158,300
	OPG wide Insurance	$ 18,000	64%	11,600	16%	2,900	19%	3,500
	Nuclear Insurance	$ 13,400	0%		0%		100%	13,400
	Performance Incentives	$ 46,700	24%	11,300	5%	2,300	71%	33,100
	IESO Non Energy Charge	$ 69,200	33%	22,900	18%	12,800	48%	33,500
	SR&ED Tax Credits	-$ 10,000	12%	- 1,200	1%	- 100	87%	- 8,700
	Other	-$ 1,400	157%	- 2,200	29%	- 400	-86%	1,200
		$ 349,000	26%	89,200	7%	25,500	67%	234,300
Hydroelectric Common Support Costs								
	Hydroelectric Buiness Unit	$ 31,799	75%	23,771	25%	8,028	0%	
	Ottawa-St. Lawrence Support	$ 6,117	80%	4,887	20%	1,229	0%	
		$ 37,915	76%	28,658	24%	9,257	0%	
Grand Total		$ 793,521	31%	246,013	8%	60,878	61%	486,630

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UNDERTAKING J1.4

Undertaking

To complete Tables 1 and 2 on page 2 of 3 of Ex. L-1-88, to include information for Non-Regulated Hydroelectric, Corporate, and Total OPG.

Response

Table 1 below provides IESO non-energy charges for the period 2007 – 2012. For 2007 – 2009, actual charges are presented. For 2010 – 2012 forecast charges are presented at a business unit level as OPG does not forecast IESO non-energy charges or withdrawals on an individual facility basis.

Table 1[1]
Actual (2007-09) and Forecast (2010-12) IESO Non-Energy Charges ($M)

	2007	2008	2009	2010	2011	2012
Darlington	1.8	1.6	8.5			
Pickering A	2.8	3.7	9.7			
Pickering B	5.2	5.3	17.9			
Total Nuclear	**9.8**	**10.6**	**36.1**	**26.3**	**30.3**	**33.5**
Saunders	0.0	0.0	0.0			
Sir Adam Beck 1	(0.7)[2]	0.3	1.5			
Sir Adam Beck 2	0.1	0.2	0.1			
Sir Adam Beck PGS	3.2	3.4	10.5			
DeCew	0.8	0.5	0.5			
Total Reg Hydro	**3.4**	**4.3**	**12.7**	**10.1**	**11.6**	**12.8**
Total Unregulated (Thermal and Unregulated Hydro)	**7.2**	**7.5**	**26.8**	**18.4**	**20.9**	**22.9**
Total [3]	**20.5**	**22.4**	**75.5**	**54.7**	**62.8**	**69.2**
Corporate Facilities[4]	0.2	0.1	0.1	0.2	0.2	0.2

OPG generating assets are wholesale customers connected to the transmission system. Non-energy load charges are directly invoiced by the IESO.

OPG understands that the request for "Corporate" information pertains to its corporate facilities which are 700 University Ave and the 800 Kipling Ave Complex both located in Toronto.

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[1] Numbers may not add due to rounding.
[2] 2007 Sir Adam Beck 1 Non-Energy load charges include a $0.7M IESO credit received in May 2007.
[3] Values are consistent with Ex. L-01-088 Table 1 except for the inclusion of unregulated amounts and consistent with Ex. F4-T4-S1, Table 1.
[4] Table 1 includes IESO non-energy charges for the Kipling Complex. Corporate Facilities amounts were not included in the Total OPG IESO non-energy charges in Ex. F4-T4-S1, Table 1.

The Kipling Complex is a wholesale customer resulting from its legacy direct connection to the transmission system. As a result of this connection it is invoiced directly by the IESO for non-energy charges. 700 University Ave is a retail customer supplied by a local distribution company. Typically electricity distributors and resellers do not specify non-energy load charges on their customer's invoices and therefore IESO non-energy charges for 700 University have not been included in Table 1.

Table 2 below provides energy withdrawals in MWh for the period from 2007 – 2012. 2007 – 2009 are actual withdrawals and 2010 – 2012 are forecast withdrawals. For corporate facilities, energy withdrawals are provided for both the Kipling Complex and 700 University Ave.

Table 2[5]
Actual (2007 - 09) and Forecast (2010 – 2012) Energy Withdrawals (MWh)

	2007	2008	2009	2010	2011	2012
Darlington	155,583.160	123,854.713	176,872.126			
Pickering A	202,791.890	262,972.581	224,798.129			
Pickering B	430,679.659	387,846.789	434,972.587			
Total Nuclear	**789,054.709**	**774,674.083**	**836,642.842**	**807,164**	**807,164**	**807,164**
Saunders	16.494	20.372	6.238			
Sir Adam Beck 1	24,094.095	23,349.137	33,666.085			
Sir Adam Beck 2	7,121.945	8,310.157	3,590.763			
Sir Adam Beck PGS	268,720.694	269,171.235	246,814.589			
DeCew	2,143.934	1,377.555	983.038			
Total Reg Hydro	**302,097.162**	**302,228.456**	**285,060.713**	**300,658**	**300,658**	**300,658**
Total Unregulated (Thermal and Unregulated Hydro)	**734,920.755**	**691,452.800**	**721,016.338**	**504,726**	**504,726**	**504,726**
Total[6]	**1,826,073**	**1,768,355**	**1,842,720**	**1,612,548**	**1,612,548**	**1,612,548**
Corporate Facilities[7]	**21,478**	**21,745**	**21,188**	**20,871**	**20,944**	**20,944**

[5] Numbers may not add due to rounding.
[6] Consistent with Ex. L-01-088 Table 2 except for the inclusion of unregulated amounts.
[7] Corporate Facilities includes energy withdrawals for the Kipling Complex and 700 University. Non-OPG commercial tenant energy withdrawals have been excluded from the Corporate Facilities total. Corporate Facilities amounts were not included in the Total OPG IESO non-energy charges in Ex. F4-T4-S1, Table 1.

IESO non-energy charges are based on the withdrawal quantities (energy consumption) shown in Table 2 above except for transmission-related charges, which are based on monthly peak demand.

tell you what my next questions are. But can you tell me why you haven't done any work on the nuclear side? It's such a -- $33 million for 2012 just on these non-energy charges, to say nothing of the commodity costs, nuclear appears to use three times as much as hydro and I have to system it uses a lot more than your real estate services or something like that. Why haven't you done any energy efficiency improvements for nuclear?

MR. PETERSON: I don't think I can answer that question. I would point out that the consumption of the nuclear stations or any station are to -- power auxiliary required in the production of electricity.

MR. MILLAR: Of course. I understand what it's for but I guess my point is you haven't done anything to improve efficiency yet at those facilities that I can see.

MR. PETERSON: Not that I'm aware of.

MR. MILLAR: Okay. You also -- on the hydro side, I believe you had listed seven projects. However, only one of them relates to a regulated Hydro facility, and that's the Sir Adam Beck generating station. Why the focus on non-regulated versus regulated? Do you know?

MR. MAZZA: Well, it's really not necessarily a focus on unregulated versus regulated. A lot of these energy efficiency --

MS. CHAPLIN: I don't think you have the microphone on.

MR. MAZZA: Okay, sorry. What this, I guess, chart or page implies is that, really, it is our runner upgrade

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Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0272

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

TRANSMISSION REVENUE REQUIREMENT AND RATES
2009 and 2010

DECISION WITH REASONS

May 28, 2009

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average PWU wages per employee have increased an average of 0.1% per year between 2004 and 2010, and that the PWU wages have decreased by an average of 1.1% per year between 2006 and 2010. Hydro One also pointed to lower compensation and benefits paid to recently hired and future Society represented and MCP staff.

Hydro One stated that it is cognizant of the limitations of the productivity section of the Mercer Study. Hydro One claimed that Oliver Wyman provided clarification on the productivity indicators which Hydro One believes the parties have disregarded. For example, the study looked at both transmission and distribution MWh sold by the company.

Board Findings

Hydro One and SEP argued that the Board should not refuse to allow a company to recover costs unless the Board is satisfied that there is compelling evidence to show that a company has acted imprudently in entering these contracts.

The Board does not question this argument but finds it necessary to place the argument into the context of the "contract" that is at issue in this case. The presumption of a company's prudence exists in the absence of information suggesting otherwise. The information that leads to a challenge of the prudence in this case is the comparative analysis related to the compensation levels of other similar businesses.

Hydro One's response to the challenge is a claim that its higher compensation levels are acceptable because of its higher productivity levels. The testing of the evidence providing support for that claim has been the focus of this issue in the proceeding. The Board accepts the evidence regarding the compensation comparisons. The Board finds that this portion of the study is persuasive and notes that Hydro One accepts the results as well.

The Board differentiates collective agreement contracts from other goods and service related contracts in the context of a review of prudence. In the typical scenario of contracting for goods and services the company can go to the market place and solicit offers from multiple service providers. If the tendering parties are at arm's length from the company the Board can rely on typical market forces and profit incentives to determine that the costs incurred in association with the contract are prudent.

The Board cannot rely on typical market forces to test the prudence of entering into a collective agreement. With a collective agreement there is a single source supplier and the nature of the relationship cannot be considered to be arm's length in the same manner as stand alone independent goods and service providers. The Board's examination cannot include an analysis of the myriad of compromises and trade-offs associated with collective bargaining. The subjectivity related to that exercise would render it meaningless if not inoperable.

In the Board's view, once a legitimate challenge to the prudence of the terms of the collective agreement has been made, the only appropriate and likely the only practical manner in which the Board can test the prudence is through the type of comparative analysis filed in this application.

Many of the intervenors found fault with the productivity portion of the Mercer Study for one reason or another. The Mercer Study may be illustrative of the challenges associated with performing comparative analysis of this sort. However, Hydro One has relied on the report to substantiate its claim that its compensation costs that are over and above the median level of the compensation paid by its comparators is offset by its higher than median productivity ranking among those same comparators. The Board does not accept this claim.

The Board does not accept that the productivity portion of the Mercer Study can be relied on to draw any conclusions on productivity. All of the key performance indicators have inherent weaknesses due to the fact that none of the data that was collected from the comparators was originally captured with the intent that it would also be used to perform comparative analysis with other companies. There is no standardized industry-wide method of capturing this particular data for comparison purposes. This results in approximations and assumptions having to be made in order to perform the analysis.

The performance indicator that was the primary driver for Hydro One's relatively high ranking was the compensation cost per MWh. Of the four performance measures utilized in the report the Board considers this one to be particularly problematic. There is no evidence supporting the purported correlation of the MWh sold and productivity. MWh is a combination measurement of a quantum of load and time duration that the load was placed on the system. In essence the MWh sold measurement is a measure of the system utilization. It has not been demonstrated how the productivity efforts of a

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transmission company can be assessed by comparing the utilization factor of its system to that of others.

In the context of this application, Hydro One's projections indicate that an increase in costs will occur through the test period. It has also stated that it will likely experience a substantial reduction in MWh sold due to the economic downturn. The Board would not accept a calculation of the projected cost per MWh sold through the test period based on these two assumptions to be predictive of a decline in Hydro One's productivity. In the Board's view the productivity efforts of Hydro One are intended to maintain the system in a state that is ready for use at the design capacities for which it was built and therefore costs per MWh sold cannot be used as an indication of productivity.

The Board has not been able to draw a conclusion on Hydro One's response to Energy Probe's argument regarding the absence of all the local distribution companies' distribution costs in the costs per MWh calculation. It is not clear from the response how the points raised by Energy Probe were either considered in the calculation or discounted outright. In any event, having declined to accept the proposition that costs per MWh sold can be used as a productivity indicator, the Board considers the point moot.

The Board concludes that it is appropriate to disallow some compensation costs because these costs are substantially above those of other comparable companies and the company has failed to demonstrate that productivity levels offset this situation. But while the Board does not consider the productivity portion of the Mercer Study to be of determinative value in support of the application it does not draw any negative conclusions from the study either.

In determining the appropriate disallowance the Board has also considered that Hydro One has demonstrated effort and progress in managing the collective agreements that were established by the predecessor company. However, it is worth noting that the Board places little weight on the company's submission in its final argument that its average annual increase per employee has remained very low over its recent history. Hydro One has submitted evidence on the number of new hires it is training. This would seem to have the effect of lowering the average income per employee and therefore influence the analysis in the short term.

Hydro One's evidence is that the revenue requirement would be $13 million less if it were based on the median compensation level from the Mercer Study. Some parties suggested that this amount should be disallowed. The Board does not believe that a reduction of that magnitude is warranted; such a disallowance would imply that the Mercer Study was precise and/or that there are no mitigating circumstances. The Board has already indicated that while the full level of compensation has not been justified, Hydro One has made strides in controlling these costs. The Board will disallow $4 million in each of the test years; this level of adjustment goes some way toward aligning Hydro One's costs with other comparable companies. This disallowance is separate from, and additional to, any labour cost reduction that results from the disallowance of sustaining maintenance program costs made earlier in this Decision as well as any labour cost reductions that result from the Board's findings related to certain Development Capital projects covered in the Capital Expenditures section of this Decision.

The intervenors and Board staff have commented that improvements should be focused in the area of internal productivity comparisons. Hydro One provided evidence of development work on its key performance indicators that it stated will provide year over year performance comparisons. The Board does not consider the current internal performance monitoring to be sufficient to determine that performance improvements are actually being made.

Given the high proportion that compensation costs represent in the overall company costs, the Board will always be interested in having the best evidence available to make determinations of the prudence of these costs and as they relate to productivity. The Board directs Hydro One to continue its key performance indicator development and to improve on its cost allocation accounting processes with the objective of being able to demonstrate improvements in efficiency and the value for dollar associated with its compensation costs.

5.7 PROPERTY TAXES

Hydro One projected property taxes of $61.9 million in 2009 and $64.1 million in 2010. This is an increase of 3.65% in 2009 and 3.10% in 2010 for the cost of property tax, indemnity payments and rights payments.

	FTEs	Ave. Comp per FTE	Total
Regular	1,362.9	$116,500	$158,777,850
Non-Regular	821.0	$63,900	$52,461,900
Net Impact			**$106,315,950**

Chart 1
Average Employee Costs ($K) For Nuclear Business
Year End 2005

	Regular	Non-Regular	Difference
Base Salary[1]	77.6	40.8	
Overtime[1]	14.4	14.2	
Incentives[1,2]	1.6	0	
Other[1,3]	4.4	8.9	
Benefits[4]	N/A	0	
Pension/OPEB[6]	18.5	0	
	116.5	**63.9**	**52.6**

Note: Staff calculations in coloured portions of table.