

**UNDERTAKING J9.2**

**Undertaking**

TO RECONCILE 2013 ACTUAL RESULTS AND THE NUMBERS USED BY NAVIGANT, AS PRESENTED BY OEB STAFF ON PAGE 30 OF EXHIBIT K9.1

**Response**

In this response, OPG provides two reconciliations between the total cost benchmarked and the 2013 actual values of regulated hydroelectric costs as reported in EB-2013-0321:

1. Total Regulated Hydroelectric Cost to Navigant's Partial Function Cost, and
2. Regulated Hydroelectric OM&A to Navigant's Partial Function Cost.

**Total Regulated Hydroelectric Cost to Partial Function Cost**

The first reconciliation starts with total 2013 actual hydroelectric costs (line 3) and adjusts for differences in the treatment of capital related costs in Navigant's study (lines 4 to 8), arriving at the total costs benchmarked by Navigant (line 9). It then adjusts for regional wage differences (line 10) and removes the investment function and PA&R functions (lines 11 and 12) to derive the Partial Function Cost value used to benchmark OPG against its peers (line 13).

**Regulated Hydroelectric OM&A to Partial Function Cost**

The second reconciliation starts with the 2013 actual hydroelectric OM&A costs (line 16), from which it removes costs that are not benchmarked by Navigant (line 19), adjusts for regional wage differences (line 20), removes costs that Navigant does not include in the partial function cost benchmark metric (lines 21 to 26), and identifies methodological differences that apply to determining the labour component of OM&A costs that are not derived using accrual accounting (line 27). The result is the same Partial Function Cost value identified in the first reconciliation.

<b>RECONCILING TOTAL COST TO PARTIAL FUNCTION COST</b>		
<b>Line</b>	<b>Amount</b>	<b>Description</b>
1	454.7	Total Cost PrevReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 15, line 12)
2	331.3	Total Cost NewReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 16, line 12)
3	<b>786.0</b>	Line 1 +2
		<i>Deduct Accrual Accounting Asset-Related Costs (Depreciation, Amortization, Taxes)</i>
4	(80.6)	Total Asset Related Costs PrevReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 15, line 8 to 11)
5	(59.2)	Total Asset Related Costs NewReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 16, line 8 to 11)
6	87.2	Add back: 2013 Actual Capital Asset-related expenditures (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 8, lines 3 and 9)
7	(59.3)	OM&A Costs not benchmarked (EB-2016-0152, Ex A1-3-2, Attachment 2, page 5)
8	(1.8)	Correction for administrative error identified by OEB Staff (Ex. K9.1, page 30, line 6). The dollar value of the "Total Costs Not Benchmarked" reported on page 5 of Navigant's study (Ex. A1-3-2, Attachment 2) were understated by \$1.8M. The percentage of total costs benchmarked was reported accurately at 91.7%.
9	<b>672.3</b>	Total Costs Benchmarked (sum of lines 3 through 8, and per EB-2016-0152, Ex A1-3-2, Appendix 2, page 5)
10	666	Line 9 Benchmarked Cost Adjustment for regional wages (EB-2016-0152 Ex A1-3-2, Attachment 2, page 5)
11	326	Public Affairs and Regulatory Cost Benchmark Function
12	140	Investment Cost Benchmark Function
13	<b>201</b>	Partial Function Cost Benchmark (Line 10 less lines 11 and 12 - difference due to rounding)

<b>RECONCILING TOTAL OM&amp;A TO PARTIAL FUNCTION COST</b>		
<b>Line</b>	<b>Amount</b>	<b>Description</b>
14	124.7	Total OM&A PrevReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 15, line 6)
15	196.6	Total OM&A NewReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 16, line 6)
16	<b>321.3</b>	Lines 14 + 15
17	(59.3)	OM&A Costs not benchmarked (EB-2016-0152, Ex A1-3-2, Attachment 2, page 5)
18	(1.8)	Correction for administrative error as described in line 8 above
19	<b>260.2</b>	Sum of lines 16, 17 and 18
20	<b>257.8</b>	Adjust Line 19 by 666/672.3 regional wage difference
		<i>Deduct OM&amp;A Costs Not Directly Included In Partial Function Cost</i>
21	14.7	Project OM&A PrevReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 15, line 2)
22	23.1	Project OM&A NewReg HE (EB-2013-0321 L-1-Staff-2 Attachment 1 Table 16, line 2)
		<i>Deduct Engineering and Support OM&amp;A costs allocated to Investment and PAR benchmark functions</i>
23	7.7	Engineering cost benchmarked under the Investment Function
24	3.7	Other support cost (project overhead) are reported as OM&A but for benchmarking Navigant considers these cost to be Investment
25	1.4	Base OM&A engineering and support costs included in PA&R
		<i>Deduct Nippissing OM&amp;A</i>
26	0.2	Nippissing GS Closure: Navigant used OM&A costs associated with operating stations. OPG is incurring cost to maintain the dam and station.
		<i>Methodology Differences</i>
27	6.0	Navigant determines labour costs through a detailed bottom up methodology that starts with FTEs in each job and then builds up labour costs by multiplying FTEs by average hourly wages, hours/year, and a forecast benefits multiplier, to arrive at a representative and comparable total. Overtime, contractor, and non-labour costs are added to the straight time labour totals. This bottom up approach normalizes for variability that results from staff turnover timing and enhances comparability of performance among peers but introduces sources of minor variances compared to OM&A accrual based accounting costs. For example, Navigant uses the forecast labour burden for benefits, while reported OM&A will reflect actual benefits and costs. Navigant also amended its approach to applying the labour burden to overtime costs that results in a minor variance to reported OM&A.
28	<b>201.0</b>	Subtract lines 21 through 27 from line 20