

UNDERTAKING J8.15

Undertaking

To provide a breakout of interrogatory L-3-80 IT enhancements.

Response

OPG's IT costs include base work performed by New Horizon System Solutions (NHSS), OM&A project costs that include work performed by both NHSS and OPG, and OPG's internal costs incurred by its CIO departments.

NHSS base costs include:

- Infrastructure Management
- Contracts
- Applications Maintenance
- Enhancements and Variable Demand
- NHSS Indirects and Miscellaneous

The nature of the Enhancements and Variable Demand cost component of total CIO costs was described in interrogatory L-3-80 as follows: "Enhancement hours are labour services used to make minor modifications to existing infrastructure and software applications in addition to the support services delivered as part of NHSS Base Services. Variable demand costs primarily consist of telecommunications (voice and data) charges from third parties." Enhancement work is performed by NHSS at OPG's request. The Variable Demand cost component includes telecommunications charges and certain hardware purchases.

The amount included in the 2008 CIO Business Plan for enhancements is based on expected future expenditures. The estimate of future expenditures is developed on the basis of OPG's past experience. There are no specific enhancements identified in the approved business plan. The 2008 business plan amount for variable demand includes an estimate of OPG's telecommunication usage plus costs associated with the transfer of the management of telecommunications and hardware purchases from OPG to NHSS as discussed below. Business need for expenditures on specific enhancements and variable demand initiatives is identified and assessed throughout the year, and the approval for the release of funds is obtained in accordance with OPG's Organizational Authority Register.

In reviewing the presentation of the 2008 and 2009 CIO budget in interrogatory L-3-80, OPG identified a misclassification between the line items presented in the interrogatory response. The appropriate classification of the CIO budget for 2008 and 2009 is shown in the chart below, with changed amounts shaded:

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Cost Component	Budget (\$M)				
	2005	2006	2007	2008	2009
Total	165.7	166.5	174.0	192.3	190.3
Infrastructure Management	36.6	41.0	41.6	56.8	53.8
Contracts	24.6	27.4	27.8	29.5	30.0
Application Maintenance	18.9	21.0	21.4	22.7	23.0
Enhancements and Variable Demand	22.9	14.6	17.5	31.8	32.1
NHSS Indirects and Miscellaneous	21.0	18.1	17.8	16.0	16.2
NHSS Base Costs	124.0	122.1	126.1	156.8	155.1
OM&A Project Costs	11.5	12.9	12.3	14.3	14.0
CIO Costs	30.2	31.5	35.6	21.2	21.2

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NHSS Base Costs increase by \$30.7M from 2007 to 2008, on a plan-over-plan basis, as a result of the elements identified below. During the same period, internal CIO costs decrease by \$14.4M, resulting in a net increase of \$16.3M. Of the \$16.3M, \$12.6M is associated with special initiatives to enhance the efficiency of provision of IT services and to address security and infrastructure risks, as discussed below.

Of the \$14.3M increase in Enhancements and Variable Demand from 2007 to 2008, on a plan-over-plan basis, \$12.6M relates to a transfer in the management of third party contracts for expenditures related to telecommunications and certain hardware purchasing from OPG's internal CIO departments to NHSS. The corresponding decrease in the line item for internal CIO Costs also appears in the chart above (\$12.6M of the \$14.4M decrease).

The budget for Infrastructure Management costs increases in 2008 by \$15.2M when compared to the budget for 2007. Of the \$15.2M increase, \$7.6M relates to the one-time initiative to re-engineer OPG's IT help desk (discussed in undertaking J8.16), and \$5.0M relates to the initiative to relocate OPG's data centres (discussed in interrogatory L-14-55).

OPG's actual CIO expenditures in 2007 of \$168.2M (as shown in Table 1, Ex. F3-T1-S1) were \$5.8M below budget mainly due to one-time credits received under the NHSS contract related largely to the final gain-share adjustment and infrastructure savings (discussed in section 5.0, Appendix A, Ex. F3-T1-S1) received in 2007.

The 2009 budget does not include any costs related to the initiative to re-engineer the IT help desk; however, it includes \$10.0M for the relocation of data centres. As a result, there is no significant decrease in the 2009 budget for Infrastructure Management compared to 2008. As OPG noted in interrogatory L-14-55, the total cost of the data centre relocation initiative is estimated at approximately \$25M over the 2008-2010 period.

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2 OPG's CIO costs, including costs of the NHSS contractual relationship, benchmark
3 favourably against those of a peer group of Canadian and US energy companies. These
4 benchmarking studies are conducted by Gartner Consulting on an annual basis, as
5 noted in the listing of benchmarking studies provided in response to interrogatory L-6-42.