

UNDERTAKING J9.3

Undertaking

To comment on a comparison prepared by Board staff of the increase in the corporate support groups and centrally-held costs over the period 2005-2009 to the increase in total OM&A costs over the same period for the regulated businesses.

Response

Board Staff provided OPG with Table 1: Operating Costs Summary – Total Nuclear and Regulated Hydro – Including Allocation of Corporate Costs, and Table 2: Operating Costs Summary – Total Nuclear and Regulated Hydro – Excluding Allocation of Corporate Costs for this purpose. Tables 1 and 2 as provided by Board staff are attached.

Table 2, and not Table 1, is a more meaningful basis for comparing the increase in the corporate support groups and centrally-held costs allocated to regulated facilities to the increase in the facilities' own operating costs. Table 2 appropriately excludes the allocation of corporate costs to the regulated business.

Board Staff's analysis in Table 2 does not take into account several significant factors when it compares the increase of 24.28% in the allocation of corporate costs to the increase of 17.18% in the operating costs of the regulated facilities. The two most significant adjustments required for this comparison are:

- Operating costs of the regulated businesses in 2005 include one-time impairment charges and write-offs of \$120.0M related to Pickering A Units 2 and 3 that should be excluded. Excluding this \$120.0M from 2005, the cumulative percentage increase over the 2005-2009 period in the regulated facilities' operating costs is approximately 27.05%, not 17.18%.
- The increase in the allocation of corporate costs includes incremental costs of approximately \$9.5M related to OPG's regulated facilities becoming subject to the OEB regulation (\$8.0M in Regulatory Affairs and \$1.5M in legal costs) as well as an increase in pension/OPEB costs of \$16.5M that is driven primarily by lower discount rates resulting from changing market conditions.

When adjusted for the items identified above, the increase in corporate support groups and centrally-held costs allocated to regulated facilities is approximately 17.51%, compared to the increase of 27.05% in the regulated facilities' operating costs.

BOARD STAFF TABLES 1 & 2

Reference : EB-2007-0905 Transcript Vol 9 pg 71.

Table 1**Operating Costs Summary - Total Nuclear and Regulated Hydro - Including Allocation of Corporate Costs (\$M)**

Cost Item	2005 Actual (a)	2006 Actual (b)	2007 Actual (c)	2008 Plan (d)	2009 Plan (e)	Percentage Change (2005-09)
OM&A:						
Base OM&A	\$1,083.7	\$1,181.6	\$1,295.2	\$1,416.9	\$1,425.9	
Project OM&A	\$162.5	\$151.4	\$118.6	\$157.5	\$149.2	
Allocation of Corporate Costs	\$383.8	\$461.8	\$484.8	\$504.5	\$477.0	24.28%
Asset Service Fee	\$15.9	\$33.3	\$35.5	\$32.4	\$27.6	
Outage OM&A	\$163.0	\$187.7	\$215.6	\$192.2	\$207.9	
P2/3 Impairment Charges and Write-Offs1	\$120.0	\$0.0	\$0.0	\$0.0	\$0.0	
Total OM&A (including Corporate Costs)	\$1,928.9	\$2,015.8	\$2,149.7	\$2,303.5	\$2,287.6	18.60%

Table 2**Operating Costs Summary - Total Nuclear and Regulated Hydro - Excluding Allocation of Corporate Costs (\$M)**

OM&A:						
Base OM&A	\$1,083.7	\$1,181.6	\$1,295.2	\$1,416.9	\$1,425.9	
Project OM&A	\$162.5	\$151.4	\$118.6	\$157.5	\$149.2	
Asset Service Fee	\$15.9	\$33.3	\$35.5	\$32.4	\$27.6	
Outage OM&A	\$163.0	\$187.7	\$215.6	\$192.2	\$207.9	
P2/3 Impairment Charges and Write-Offs1	\$120.0	\$0.0	\$0.0	\$0.0	\$0.0	
Total OM&A (excluding Corporate Costs)	\$1,545.1	\$1,554.0	\$1,664.9	\$1,799.0	\$1,810.6	17.18%

Note: These tables aggregate F2-T1-S1 (Table 1 - Nuclear) and F1-T1-S1 (Table 1 - Reg Hydro) for a total for the prescribed business..