ASSET SERVICE FEES

1.0 PURPOSE

This evidence describes OPG's service fee methodology and explains the calculation of the proposed service fees for the IR term.

2.0 BACKGROUND

Approximately 99% of OPG's in-service fixed assets are directly associated with specific generation facilities. The remaining assets are either directly associated with a business segment, or are common assets used by both regulated and unregulated generation facilities.

The assets held centrally are not included in rate base and the depreciation and amortization expense in this rate submission does not include any depreciation or amortization related to these assets. Instead, the nuclear facilities (as well as regulated hydroelectric and unregulated facilities) are charged a service fee for the use of these assets, which is included in the nuclear OM&A expenses.

The service fee methodology used in this application is the same as that accepted by the OEB in all previous OPG applications. In its review of OPG's cost allocation methodology for this proceeding, Elenchus Research Associates has concluded that it "believes that OPG's use of asset service fees continues to be reasonable given the operation of the business and is consistent with the cost causality principle".[1] This conclusion is similar to that reached in prior independent expert reviews of OPG's cost allocation methodology.

Exhibit F3-2-1, Table 2 presents asset service fee amounts charged or expected to be charged to nuclear facilities for years 2016 to 2026.

[1] Ex. F3-1-4, Att.1, p.7.

3.0 ASSET SERVICE FEES

Asset service fees are computed in a cost-based manner. The costs included in the computation of the asset service fees are depreciation expense, certain operating costs, property taxes, and a tax-adjusted return earned on these assets.

The nuclear facilities are charged a service fee for the use of the following assets, which are further discussed below:

- Kipling Site Building Complex (located in Toronto, Ontario) and Wesleyville (located in Durham County, Ontario)
- Clarington Campus (to be located in Durham County, Ontario, to be placed in service in 2024)
- Leasehold Improvements at 700 University Avenue (located in Toronto, Ontario)
- Certain shared IT and Energy Markets Assets (together "IT Assets")

The charts below provide nuclear service fee amounts by asset for the years 2022-2026.

Kipling/Wesleyville

OPG's Kipling and Wesleyville sites are partially used by personnel from the regulated operations and Support Services that support them. The service fee for the use of the Kipling and Wesleyville sites is computed based on an allocation of depreciation expense, operating costs related to maintaining the building, property taxes, and a tax-adjusted return on the capital invested in these assets. The cost allocation is based on the principles of OPG's Support Services cost allocation methodology discussed in Ex. F3-1-4. Depreciation expense and property tax expense, as per OPG's budget for the year, are apportioned based on the relative square footage used by the regulated operations, including an amount for the support services supporting them. As per the cost allocation methodology, operating costs incurred by Real Estate to maintain the building are apportioned based on the relative square footage used by the regulated operations, including an amount for Support Services supporting them.

The return on capital amounts are computed using after-tax rates of return which are generally consistent with the proposed weighted average cost of capital rates for the regulated operations as per Exhibit C. The return on equity component is grossed-up by OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is applied to the average budgeted net book value of each building for the year, and then apportioned to each of the regulated facilities using relative square footage which is consistent with the allocation basis used to determine the depreciation expense in the Asset Service Fee.

The Nuclear service fees and associated components for Kipling and Wesleyville sites for 2022-2026 is shown below in Chart 1.

Chart 1
Components of Nuclear Service Fees for Kipling/Wesleyville – 2022-2026

$M	2022	2023	2024	2025	2026
Depreciation Expense	0.2	0.2	0.2	0.2	0.2
Property Tax	0.1	0.1	0.1	0.1	0.1
Operating Costs	0.9	0.9	0.9	0.9	0.9
Tax-adjusted Return	0.4	0.4	0.4	0.4	0.3
Total	**1.6**	**1.6**	**1.6**	**1.6**	**1.5**

Clarington Campus

OPG has announced that it will build a new corporate campus in Clarington, Ontario ("Clarington Campus") that is expected to be fully completed in 2025. This new Clarington Campus will help OPG to reduce its real estate footprint by investing in a new, sustainable corporate campus for non-plant employees, and will enable the company to reduce its leasing and other real estate operating costs during the business plan period. This Clarington Campus will also bring together staff and expertise from across the organization to one location, supporting improved collaboration between departments, and increased efficiency and agility through workplace design.

The service fee for the use of the Clarington Campus by the nuclear business is computed in the same manner as that used for the Kipling/Wesleyville sites. The same components, (i.e., depreciation, property tax, operating costs, and the tax-adjusted return), are apportioned based on estimated future relative square footage. The nuclear service fees and associated components for the Clarington Campus for the 2022-2026 fiscal years are presented in Chart 2.

Chart 2

Components of Nuclear Service Fees for Clarington Campus – 2022-2026

$M	2022	2023	2024	2025	2026
Depreciation Expense			1.6	3.2	3.0
Property Tax			0.0	1.2	1.1
Operating Costs			1.5	2.3	2.7
Tax-adjusted Return			4.8	9.3	8.5
Total	**0.0**	**0.0**	**8.0**	**16.0**	**15.3**

700 University Avenue Leasehold Improvements

OPG completed its first workplace transformation project at its current head office, located at 700 University Avenue in Toronto. This project enabled OPG to reduce its occupancy in the building from 5 floors to 2 floors. It also enabled OPG to gain experience needed to implement future workplace transformation projects that will provide a collaborative, agile and cost effective working environment for employees.

The service fee for the use of the resulting 700 University Avenue leasehold improvements by the nuclear business is computed in the same manner as that used for the Wesleyville/Kipling and Clarington Campus sites. The same components, (i.e., depreciation, property tax, operating costs, and the tax-adjusted return), are apportioned based on relative square footage and the employees that are based at the current headquarters. The nuclear service fees and associated components for 700 University Avenue leasehold improvements for the 2022-2026 fiscal years are presented in Chart 3. The leasehold improvements are depreciated over the lease term.

Chart 3					
Components of Nuclear Service Fees for 700 University – 2022-2026					
$M	**2022**	**2023**	**2024**	**2025**	**2026**
Depreciation Expense	3.0	2.8	2.8	1.3	0.0
Tax-adjusted Return	0.6	0.4	0.2	0.1	0.0
Total	**3.6**	**3.3**	**3.0**	**1.4**	**0.0**

IT Assets

IT assets include computer systems and applications used throughout OPG, such as SAP and other enterprise resource planning systems, document management and archiving systems, computer network hardware and the remote access system, as well as, information technology systems, applications and infrastructure related to generation portfolio management and related administrative functions such as transaction settlements.

These assets are used by personnel from the regulated business units and the Support Services that support them. The service fee for the use of IT assets is computed based on a portion of depreciation expense and a tax-adjusted return. The portion of the costs included in the service fee is based on the principles of OPG's cost allocation methodology discussed in Ex. F3-1-4. For the majority of IT assets, depreciation expense and return on capital is apportioned using the relative number of IT end users (formerly referred to as "business workstations") of the regulated operations. The return on capital amounts are calculated as described above. OPG's IT capital expenditures are discussed in Ex. D3-1-1.

The nuclear service fees and associated components for IT Assets for the years 2022 to 2026 respectively, are presented below in Chart 4:

Chart 4					
Components of Nuclear Service Fees for CIO – 2022-2026					
$M	**2022**	**2023**	**2024**	**2025**	**2026**
Depreciation Expense	40.1	43.5	45.4	45.8	43.7
Tax-adjusted Return	8.4	8.9	9.2	8.5	8.1
Total	**48.5**	**52.4**	**54.5**	**54.3**	**51.8**