1.0 PURPOSE
This evidence presents the base OM&A costs broken down by organizational unit for the regulated hydroelectric facilities along with a discussion of period-over-period changes.

2.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE AND TEST PERIOD
Exhibit F1-T2-S2 Table 1 sets out the Hydroelectric Central Support Groups OM&A budgets by organizational or functional area for the bridge and test periods which are allocated to the Niagara Plant Group and R.H. Saunders, using the methodology described in Ex. F1-T2-S1. It does not include the corporate allocations which are discussed in Ex. F3-T1-S1.

Exhibit F1-T2-S2 Table 2b identifies the Hydroelectric base OM&A costs for the Niagara Plant Group for the bridge and test periods. It includes the portion of Hydroelectric Central Support Group OM&A expenses allocated to the Niagara Plant Group for the same period. It does not include the corporate allocations which are discussed in Ex. F3-T1-S1.

Exhibit F1-T2-S2 Table 3b sets out the Hydroelectric base OM&A costs for R.H. Saunders for the bridge and test periods. It includes a base OM&A allocation from the Ottawa - St. Lawrence Plant Group (“OSPG”) support organizations and from the Hydroelectric Central Support Groups as per the methodology described in Ex. F1-T2-S1. It does not include the corporate allocations which are discussed in Ex. F3-T1-S1.

2009 Plan versus 2008 Plan
Cost changes from 2008 to 2009 for R.H. Saunders and allocations from the Hydroelectric Central Support Groups and the OSPG support organizations are under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.
Administration costs for the Niagara Plant Group are planned to increase in 2009 to $4.7M from $4.3M in 2008. The increase is attributed to increases in labour rates and payroll burdens, and the planned hiring of three additional support staff to address reliability and health and safety issues during 2008 with the full annual budget impact appearing in 2009. Cost changes in Niagara Plant Group operations and maintenance are less than ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

2008 Plan versus 2007 Actual

Cost changes from 2007 to 2008 for the Niagara Plant Group and the R.H. Saunders, including allocations from the Hydroelectric Central Support Groups and the OSPG support organizations are discussed below.

Hydroelectric Central Support Groups

Costs allocated from central support groups for 2008 are $2.5M higher than the actual costs in 2007 due to a number of factors:

- Addition of $0.5M in 2008 for definition phase work and implementation associated with the North American Electric Reliability Corporation (NERC) Cyber Security standards. OPG must be substantially compliant by the end of 2008 and fully compliant by the end of 2009.
- Under-spending in 2007 by all central support groups due to continuing attrition and lag in hiring during 2007 ($0.9M). Several projects were deferred from 2007 to subsequent years due to engineering staff shortfalls. An engineer-in-training program was initiated in 2007, and is evolving in 2008, to address existing staffing shortfalls and supplement existing engineers expected to retire in 2008 and 2009. This program will continue through to 2010 to mitigate the impact of demographics in the Engineering/Technical and other support areas, where the average age is over 48.
- Addition of support staff to assist in activities associated with new internal controls, audit activities, regulatory activities and other due diligence activities ($0.4 M).
- The small contingency in the Executive Vice President (EVP) budget (i.e., $0.3M per year) to address any unforeseen critical work for the regulated assets (e.g., safety work and environmental work) was not used in 2007, but has been kept in 2008.
Transfer of the EVP salary from a central corporate payroll cost centre to Hydroelectric cost centre ($0.2 M).

Increases in labour rates and payroll burdens.

**Niagara Plant Group**

Administration costs for 2008 are $2.1M over the 2007 actual of $2.2M. This cost increase is a result of lower than average administration costs for 2007, due to a one-time credit of $1.6M received from Hydro One in 2007 for OPG’s operations and maintenance support of Hydro One equipment located inside the Sir Adam Beck I powerhouse for the period dating back to the demerger of Ontario Hydro in 1999. In addition, administration spending is planned to increase approximately $0.5M resulting from the planned hiring of three additional staff combined with changes to labour rates and payroll burdens. Cost changes in operations and maintenance are less than ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

**R.H. Saunders Generating Station**

Excluding the extraordinary expense of $27.2M in 2007 related to past grievance settlement with a First Nation, total 2007 OM&A spending at R.H. Saunders was $1.5M lower than the 2008 budget of $11.7M.

Planned maintenance expenses for 2008 are $1.3M higher than 2007 actual expenditures but are $0.2M lower than the 2007 maintenance budget. The reasons for the lower maintenance spending in 2007 compared to the 2007 budget and 2008 plan are outlined in the 2007 actual versus budget discussion below.

Cost changes in operations are less than ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

Ottawa/St. Lawrence Plant Group common costs are forecast to decrease by approximately $0.2M in 2008 versus the 2007 actual allocated costs. This is a result of the restructuring discussed in Ex. F1-T2-S1 section 2.3.
2007 Actual versus 2007 Budget

Hydroelectric Central Support Groups

Costs allocated from central support groups for 2007 were $1.4M under the 2007 budget due to the following factors:

- Staffing under-variance (three staff less compared to plan) due to staff departures and slower hiring ($0.5 M).
- EVP contingency was not required in 2007 ($0.3 M).
- Lower consulting costs ($0.2 M).
- Labour rate under-variance due to difference in demographic plan assumptions compared to actual demographics (i.e., actual staff mix starting to get younger, thereby reducing the average rate).

Niagara Plant Group

Total base OM&A spending in 2007 was $34.8M versus the budget of $35.2M. Spending in operations was $2.0M below plan resulting from contingency funds budgeted in operations being transferred to maintenance activities. As described in Ex. F1-T2-S1, the Production Department is responsible for both the operation and maintenance of the Niagara Plant Group facilities. Included in the operations budget of the Production Department is funding for unforeseen events that could impact the operational performance of the Niagara generating stations. Additional maintenance activities resulted in approximately $3.7M in additional costs. These activities included: unplanned maintenance activities necessary to maintain generators in operation, health and safety improvements, and additional field service work for snow removal, fence repair, and public safety signage.

Administration costs were approximately $2.1M below budget mainly due to the one time cost recovery from Hydro One of $1.6M described above in the 2008 Plan versus 2007 Actual discussion. In addition, a cost transfer from administration to maintenance of approximately $0.4M resulted from the shifting of project staff from the Projects Department to the Production Department. The transfer was a result of using contract labour for the Sir Adam Beck I G7 Frequency Conversion project. The administration budget held funding for
the project staff to cover time not spent on projects such as training, and health and safety meetings.

R.H. Saunders Generating Station
Total base OM&A spending in 2007 was $37.4M versus the budget of $11.7M. This was the result of an extraordinary item ($27.2M) related to the settlement of a past grievance with a First Nation. Excluding that expense, total base OM&A spending in 2007 was $1.5M below budget.

Maintenance expenses were $1.5M below plan as a result of the following changes from plan: cost containment for OPG’s portion of the American eel studies and initiatives ($0.7M), lower joint works expenses than estimated from the New York Power Authority ($0.3M), staff vacancies, shifting of maintenance staff to execute projects, and the deferral of some community initiatives and activities.

Cost variances for R.H. Saunders operations and Ottawa/St. Lawrence Plant Group common cost allocations were less than ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

2007 Actual versus 2006 Actual
Hydroelectric Central Support Groups
The $0.5M total increase in the 2007 actual cost allocations as compared to 2006 is due to a number of factors including: increases in labour rates and payroll burdens, the addition of one staff person in the Aboriginal program and additional costs associated with the pre-concept phase of the potential new development at Lake Gibson GS (upstream of DeCew Falls I & II).

Niagara Plant Group
As presented in Ex. F1-T2-S2 Table 2a, the total base OM&A spending for the Niagara Plant Group of $34.8M in 2007 was $3.0M higher than the 2006 actual base OM&A expenditures. The most significant increase in OM&A costs for 2007 is related to maintenance.
Maintenance costs for 2007 were $4.7M greater than 2006 and $3.7M over the 2007 budget. Maintenance cost increases are attributed to an increase in maintenance activities, as described above in the 2007 actual versus 2007 budget discussion, combined with increases in labour rates and payroll burdens. Operational costs in 2007 were approximately $0.5M over the 2006 actual. The operations cost increases were a result of increased costs under the NYPA joint works program and increases in labour rates and payroll burdens. Administration costs were $2.2M lower mainly due to the one time cost recovery from Hydro One of $1.6M described above in the 2008 Plan versus 2007 actual discussion.

R.H. Saunders Generating Station
As presented in Ex. F1-T2-S2 Table 3a, total station base OM&A spending was $37.4M for R.H. Saunders in 2007. Excluding the extraordinary expense of $27.2M in 2007 related to past grievance settlement with a First Nation, base OM&A spending was $10.3M which is only $0.5M higher than the 2006 actual base OM&A expenditures, and only $0.1M more than the 2006 approved budget. Excluding the extraordinary expense, cost changes in operations and maintenance are less than ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

Allocated OSPG common support costs were $0.4M lower in 2007 than the 2006 actual. In 2006, the actual allocated OSPG common support costs were much higher than budgeted. This was the result of three unforeseen events described below that were subsequently treated as an approved variance to the original budgets. However the OSPG Central Support Department cost allocations are expected to level off during the bridge year and test period.

The most significant event related to the trial that resulted from a 2002 public safety incident. The trial resulted in a number of staff being away from their regular positions so a consulting firm was engaged to assist with developing an operational protocol to sustain operations across the entire plant group. In addition, the firm provided assistance to staff at all work centres and counselling services to those affected. The other two items were OPG’s contribution to a marine by-pass project on the Ottawa River and emergent safety boom repairs.
Although the majority of the unplanned events were not directly related to R.H. Saunders operations, the accepted practice until the end of 2006 was to charge the expenses to the manager delegated the task of managing the unplanned events. The unfavourable impact to the allocation of common costs demonstrated the need to update the existing practice.

Effective January 1, 2007, unplanned expenses not directly related to the regulated operations at R.H. Saunders are being charged back to the appropriate facility regardless of the manager tasked with managing the work. Also the budgeted costs have now been reallocated from the common support departments to R.H. Saunders where directly attributable.

3.0 PERIOD-OVER-PERIOD CHANGES – HISTORICAL YEARS

Exhibit F1-T2-S2 Table 1 presents the base OM&A costs for the Hydroelectric Central Support Groups that are allocated to the regulated facilities for the historical period.

Exhibit F1-T2-S2 Table 2a presents the base OM&A for the Niagara Plant Group for the historical period and includes the allocated base OM&A costs allocated from the Hydroelectric Central Support Groups.

Exhibit F1-T2-S2 Table 3a presents the base OM&A for R.H. Saunders for the historical period and includes the allocated base OM&A costs from the Ottawa - St. Lawrence Plant Group Central Support Departments and the Hydroelectric Central Support Groups. In 2005, common costs were allocated based on full time equivalents, while in 2006 common costs were allocated primarily on the basis of the percentage of base OM&A. For a discussion of the OSPG cost allocation methodology, see Ex. F1-T2-S1.

2006 Actual versus 2006 Budget

Hydroelectric Central Support Groups

Hydroelectric Central Support Groups 2006 actual costs variances versus budget were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.
Niagara Plant Group

The Niagara Plant Group total base OM&A spending in 2006 was $0.5M or two percent under budget. However, Operations costs for 2006 were $1.8M (26 percent) lower than budget in 2006. As described in Ex. F1-T2-S1, the Production Department is responsible for both the operation and maintenance of the Niagara Plant Group facilities. Included in the operations budget of the Production Department is funding for unforeseen events that could impact the operational performance of the Niagara generating stations. In 2006, DeCew Falls experienced unforeseen operational issues costing approximately $0.7M of additional unplanned expenses that was collected under the category of Maintenance. In addition, operations costs were also under budget due in part to reduced overtime costs and vacant operator positions while replacing the positions. Maintenance cost variances were under 10 percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

Administration costs for 2006 were $0.6M (16 percent) over budget. The over expenditures are attributed to the unplanned hiring of a full time temporary staff member to assist the Human Resource department, an over compliment Manager cancelling early retirement plans in 2006, and $0.4M of unplanned moving expenses.

R.H. Saunders Generating Station

R.H. Saunders direct OM&A cost variances for 2006 (actual versus budget) were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

Ottawa - St. Lawrence Plant Group common costs allocated in 2006 were $0.6M (51 percent) higher than planned due to the reasons outlined above in the discussion of 2007 actual versus 2006 actual OM&A spending.

2006 Actual versus 2005 Actual

Hydroelectric Central Support Group

The 2006 actual costs were $1.3M (22 percent) lower than the 2005 actual costs primarily for the following reasons:
• The number of EP Central Support staff allocated from EP to Hydroelectric as part of the split at the end of 2005 was insufficient to support existing and new work program/project needs of the Hydroelectric business, especially in the Engineering Services area. This staff shortage was in part caused by the major downsizing of central support engineering functions that occurred in EP during 2002/2003. The level of central engineering support in EP was lower than required to support the on-going and planned work programs and projects in the Hydroelectric portion of the business.

• The 2006 Hydroelectric Central Support Group allocation base did not include any contingency for unforeseen work, while the 2005 EP Central Support allocations to Hydroelectric included contingency.

• The allocation methodology changed from a full time equivalents (staff count) allocation approach in 2005, to a base OM&A and direct assignment allocation approach in 2006, as recommended by R.J. Rudden and Associates and discussed in Ex. F1-T2-S1.

Niagara Plant Group
Actual total 2006 OM&A spending at Niagara was $1.6M or five percent over 2005 expenditures. The majority of the increase is attributable to labour cost and payroll burden increases. The increase in Administration of $0.5M (12 percent) over the 2005 actual costs is attributed to a number of factors including: the unplanned hiring of a full time temporary staff member to assist the Human Resource department, and $0.4M of additional unplanned moving expenses. Operations and maintenance costs changes were under ten percent. As such, they are not explained as per Section 2.5.1 of the OEB Filing Guidelines.

R.H. Saunders Generating Station
R.H. Saunders direct OM&A spending in 2006 was unchanged from 2005. Operations costs were $0.3M (18 percent) higher in 2006 as a result of higher standard labour rates and higher overtime expenses to cover a vacancy during the year. Maintenance, administration, and allocated OSPG support cost changes were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.
2005 Actual versus 2005 Budget

Hydroelectric Central Support Groups (supported Electricity Production)
Hydroelectric Central Support Groups 2005 actual costs variances versus budget were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

Niagara Plant Group
The Niagara Plant Group OM&A expenditures were on budget for 2005. Operations costs were $2.0M (29 percent) under budget due to a number of factors including an unbudgeted $0.4M in cost recovery through the joint works program and $0.4M in other reduced costs. As described above in the 2006 actual versus budget discussion, included in the operations budget of the Production Department is funding for unforeseen events that could impact the operational performance of the Niagara generating stations. In 2005, the Production Department experienced unforeseen equipment failures. Emergency repairs to this equipment resulted in approximately $1.2M of operational expenses being re-allocated to maintenance. The impact of the re-allocation contributed to lower operations costs and higher maintenance costs. The majority ($0.9M) of this re-allocation went to cover costs related to the discovery of rotor cracking at the Sir Adam Beck Pump Generating Station. Additional maintenance costs incurred in 2005 included an unplanned $1M payment under the Niagara Exchange Agreement, for the maintenance of the Rankine Generating Station, offset by approximately $0.3M in reduced planned maintenance. Maintenance and administration cost variances were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

R.H. Saunders Generating Station
R.H. Saunders total base OM&A spending was on budget in 2005 at $9.8M and the associated cost variances were under ten percent. As such, they are not explained as per section 2.5.1 of the OEB Filing Guidelines.

The OSPG common support actual OM&A expenditures in 2005 were $0.2M (14 percent) higher than planned. This was due to a number of activities requiring greater time and
resources than originally planned, including higher numbers of employee moves and related
relocation expenses, higher training costs to catch up on a backlog of regulatory training, as
well as additional assessment work for programming and project execution. The other items
related to unplanned expenditures on public safety boom repairs and temporary labour to
backfill for a long-term absence.