COMPARISON OF PROJECT OM&A – REGULATED HYDROELECTRIC

1.0 PURPOSE
This evidence presents the OM&A project expenses by plant group and by project category (regulatory, sustaining, value enhancing/strategic), along with period-over-period comparisons.

Exhibit F1-T3-S2 Tables 1 and 2 show comparisons by plant group and by project category respectively.

2.0 PERIOD-OVER-PERIOD CHANGES – TEST PERIOD
2009 Plan versus 2008 Plan
From 2008 to 2009, overall regulated hydroelectric OM&A project expenditures are expected to decrease by $0.7M to a total of $12.1M. Of this, Niagara Plant Group project expenditures are expected to decrease by $0.5M to $10.3M. This decrease is due to the deferral of two concrete repair projects at Sir Adam Beck I Generating Station beyond the test period and the advancement of a bridge repair project into 2008. Decreases are offset by new projects at DeCew Falls to rehabilitate Unit G8, repair canals and drains, and to modify a transformer oil containment system. A number of additional projects are planned for the Sir Adam Beck I Generating Station including penstock repairs, powerhouse roof replacement and drain replacements. There are two new projects in 2009 related to the retirement of the 25Hz system, which is scheduled for decommissioning in 2009. R.H. Saunders project expenditures are expected to remain in the $2.0M range for the test period.

Expenditures, when viewed by project category, show an increase in regulatory projects due to a number of erosion protection projects (associated with riverbank erosion) planned for 2009, while sustaining projects decrease for 2009 as a number of concrete repair projects are completed in 2008.
2008 Plan versus 2007 Actual

From 2007 to 2008, overall regulated hydroelectric OM&A project expenditures are expected to increase by $5.9M to a total plan of $12.9M. This is comprised of an increase in Niagara Plant Group project expenditures of $4.2M and an increase of $1.6M at R.H. Saunders. Niagara’s total increase results from $2.1M in underspent projects in 2007 combined with new projects identified in the 2008 Business Plan. The 2008 increased expenditures are due in part to five projects totalling approximately $1.3M planned for 2007 that were not completed combined with the advancement of a $0.8M bridge repair project into 2008. Other changes include the addition of new projects related to health and safety issues, regulatory issues related dam safety and bridges, and projects related to maintaining reliable operations of Niagara’s regulated facilities. R.H. Saunders has a planned increase of $1.6M for a number of small civil and mechanical repair projects. The largest of these projects is a $0.6M project to repair and upgrade a number of access roads around the facility. It also includes $0.3M to complete the elevator rehab project which was deferred from 2007 and discussed below.

Expenditures by project category show an increase in regulatory projects that can be attributed to a number of bridge repair and maintenance projects in the Niagara Plant Group. The small increase in sustaining projects can be attributed to a number of civil repair projects as described above, offset by the completion of the major overhauls of the turbine-generators at DeCew Falls II Generating Station in 2007.

3.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR

2007 Actual versus 2007 Budget

For 2007, overall regulated hydroelectric OM&A project expenditures were $2.9M below plan. Niagara expenditures were approximately $2.1M under budget. The reduced expenditures were a result of deferring the Decew Falls G6 and G8 overhaul projects totalling $1.1M, the delayed execution of the Decew Falls headworks road repairs project totalling $0.75M, and $0.4M under spent on the Sir Adam Beck I screenhouse wall repairs resulting from delays due to weather conditions.
R.H. Saunders OM&A project expenses in 2007 were $0.4M which was approximately $0.7M below the budget of $1.2M. This was the result of the reclassification of two projects to capital after determining that it was more cost effective to replace the systems than to repair/upgrade them ($0.3M) and the deferral of two projects into 2008 to allow for better execution of the HVAC replacement project and the Station Service Water replacement project. Deferred projects were the elevator rehabilitation ($0.3M) and the repair of dam safety instrumentation ($0.2M).

2007 Actual versus 2006 Actual

From 2006 to 2007, overall regulated hydroelectric OM&A project expenditures decreased by $2.4M to a total expenditure of $7.0M. R.H. Saunders expenditures decreased by $1.1M in 2007 from $1.6M in 2006, while Niagara Plant Group project expenditures decreased by $1.2M to $6.5M. These cost changes, primarily in sustaining projects, are due to changes in the number of small civil and mechanical repair projects at both the Niagara plants and R.H. Saunders.

4.0 PERIOD-OVER-PERIOD CHANGES – HISTORICAL YEARS

2006 Actual versus 2006 Budget

For 2006, overall regulated hydroelectric OM&A project expenditures were $9.4M or $0.1M higher than budget. For the Niagara Plant Group OM&A project costs were $0.2M below budget. The variance was due to the deferral of several projects for bridge repairs and maintenance. However, the deferral of those costs have been largely offset by discovery work associated with the turbine-generator overhaul project at DeCew Falls II and higher costs for other projects at DeCew Falls I and Sir Adam Beck II. The 2006 actual project OM&A expenses for R.H. Saunders were $0.3M higher than budget due to higher than estimated contractor costs to repair the station entrance and improve drainage. Expenditures by project category were on budget.

2006 Actual versus 2005 Actual

From 2005 to 2006, overall regulated hydroelectric OM&A project expenditures increased by $2.8M, from $6.6M to $9.4M. Niagara Plant Group OM&A project spending in 2006 was
$2.9M higher than 2005 actual spending of $4.9M. The higher spending in 2006 is related to
the continuation of the DeCew Falls II Unit 1 overhaul, combined with the overhaul of DeCew
Falls I Unit 7, and the start of the DeCew Falls II Unit 2 overhaul. R.H. Saunders OM&A
project spending in 2006 was essentially unchanged from 2005. Sustaining projects
increased due to the overhaul projects at DeCew Falls I and II.

**2005 Actual versus 2005 Budget**

For 2005, overall regulated hydroelectric OM&A project expenditures were $6.6M or $0.1M
higher than budget.

Niagara Plant Group OM&A project spending in 2005 was $0.3M below budget. The lower
than budgeted spending is attributed to the reclassification of the DeCew Falls II headgate
project from OM&A to capital, the cancellation of two elevator refurbishment projects, and
lower than planned costs related to some other projects. These reduced project expenditures
were offset by additional unforeseen costs related to projects such as the DeCew Falls II Unit
1 overhaul and the DeCew Falls I Unit 5 turbine repair, Sir Adam Beck I turbine shaft seal
repairs, and the Sir Adam Beck Pump Generating Station cracked generator rotor repairs.

R.H. Saunders OM&A project spending in 2005 was $0.4M higher than budget as a result of
more work being carried forward from 2004 than was originally expected. This included the
revenue metering upgrade and control room upgrade projects. The other sustaining project
variance was due to the erection bay crane rehabilitation project costing more than planned
because of additional required work discovered after the crane was disassembled.