COMPARISON OF ALLOCATION OF CORPORATE COSTS

1.0 PURPOSE
The purpose of this evidence is to describe period-over-period changes in the corporate support and centrally held costs that are assigned and allocated to the regulated hydroelectric and nuclear businesses.

2.0 PERIOD-OVER-PERIOD CHANGES - BRIDGE AND TEST PERIOD

REGULATED HYDROELECTRIC OM&A

Exhibit F3-T1-S2 Tables 1a and 1b provide details on period-over-period changes for the bridge and test period.

2009 Plan versus 2008 Plan Regulated Hydroelectric
Corporate support and centrally held costs decrease by $0.7M for 2009 plan versus 2008 plan, primarily due to decreases in pension and other post-employment benefits (“OPEB”) expenses and other centrally held costs. Pension and OPEB expenses decrease mainly due to the net impact of changes in pension fund asset values and OPG’s pension obligation. Other centrally held costs decrease due to a lower fiscal calendar adjustment.

2008 Plan versus 2007 Actual Regulated Hydroelectric
Corporate support and centrally held costs increase by $9.5M in 2008 as compared to 2007 mainly due to increases in corporate support costs, IESO non-energy charges and other centrally held costs, partially offset by lower pension and OPEB expenses.

Expected cost increases in the corporate support groups are primarily due to the following:
- CIO costs increase mainly due to a series of special initiatives, such as the relocation of multiple data centres, annual cost escalation based on a cost-of-living adjustment and the consumer price index pursuant to the New Horizon System Solutions (“NHSS”) outsourcing agreement (discussed in Ex. F3-T1-S1), increased business demand for IT services including ongoing support for new systems, and a non-
recurring reduction in 2007 costs as a result of credits received from NHSS related to prior years.

- Corporate Affairs costs increase mainly due to activities associated with the OEB payment amounts hearing and initiatives related to water safety, community and sponsorship advertising. Finance costs increase mainly for support of hydroelectric projects and programs and activities related to internal audit and internal control programs.

- Real Estate costs increase mainly due to the hydroelectric property rights and boundaries project in support of public and dam safety programs.

- Energy Markets costs increase mainly due to the organizational transfer of the Sustainable Development group from Corporate Centre and activities in support of pandemic planning.

- Corporate Centre costs remain constant overall; however, higher legal costs associated with the OEB payment amounts hearing are offset by the transfer of the Sustainable Development group to Energy Markets.

The forecast of IESO non-energy charges increases in 2008 mainly due to the inclusion of a forecast of the Global Adjustment and the OPG Rebate, which were not included in the 2005 - 2007 budgets for centrally held costs and which are not presented as part of 2005 - 2007 actual costs.

The expected increase in other centrally held costs include a higher fiscal calendar adjustment.

Pension and OPEB expenses decrease mainly due to the net impact of changes in assumptions for the discount rate from 5.25 percent to 5.6 percent and for the inflation rate, and net changes in the long term growth rate in the pension fund asset value being higher than the growth in the pension obligation, partially offset by 2007 year-end pension fund value being lower than expected. The discount rate change is based on changes in representative AA corporate bond yields used in establishing the discount rate, as discussed in Ex. F3-T4-S1.
2007 Actual versus 2007 Budget Regulated Hydroelectric

Corporate support and centrally held costs were lower than budget by $8.1M in 2007. The lower costs were mainly due to lower pension and OPEB costs reflecting a change in the discount rate from 5.0 percent to 5.25 percent, lower IESO non-energy charges, and a largely unspent centrally held contingency for unforeseen events and OEB related activities. Centrally held costs assigned and allocated to the regulated business do not include any contingencies in the 2008 and 2009 budgets.

IESO non-energy charges were lower than budget due to changes in the volume of load consumption and changes in the amount and types of settlement charges that apply to these loads.

2007 Actual versus 2006 Actual Regulated Hydroelectric

Corporate support and centrally held costs were lower by $0.6M in 2007 than in 2006, with lower centrally held costs being offset by higher corporate support costs.

Corporate support costs increased by $2.4M in 2007 mainly due to the following:

- Finance costs increased due to the establishment of a dedicated controllership group to support the increasing demands of the hydroelectric business (i.e., Niagara Tunnel project and First Nations negotiations) and costs for tax advisory services.
- Corporate Affairs costs increased mainly due to activities associated with the OEB payment amounts hearing and initiatives related to water safety, community and sponsorship advertising.
- All corporate support groups’ costs increased in part due to economic increases, including labour cost escalation (discussed in Ex. F3-T4-S1).

Centrally held costs for pension and OPEB were lower due to changes in assumptions in the discount rate from 5.0 percent to 5.25 percent and an increase in the amounts charged the business units via the payroll burden. IESO non-energy charges were lower...
as a result of changes in the volume of load consumption and changes in the amount and types of settlement charges that apply to these loads.

3.0 PERIOD-OVER-PERIOD CHANGES - HISTORICAL PERIOD REGULATED HYDROELECTRIC OM&A

Exhibit F3-T1-S2 Table 1a provides details on period-over-period changes for the historical period.

2006 Actual versus 2006 Budget Regulated Hydroelectric

Corporate support and centrally held costs decreased by $4.6M for 2006 actual versus 2006 budget, primarily due to lower costs for corporate support, insurance, and other centrally held costs offset by higher pension and OPEB expenses.

The lower costs incurred by corporate support during 2006 compared to budget are due to the following:

- CIO costs decreased due to lower New Horizon System Solutions costs, deferral of OM&A projects, reduced telecommunications costs, and lower software and applications costs.

Insurance was lower due to lower than planned premiums. IESO non-energy charges were lower than planned due to changes in the volume of load consumption and changes in the amount and types of settlement charges that apply to these loads.

Other centrally held costs decreased due to lower than planned costs for OEB preparation.

Pension and OPEB expenses increased for 2006 actual versus 2006 budget mainly due to changes in assumptions in the discount rate from 5.4 percent to 5.0 percent, partially offset by the 2005 year end pension fund asset value being higher than budget value.

2006 Actual versus 2005 Actual Regulated Hydroelectric
Corporate support and centrally held costs increased by $11.0M for 2006 actual versus 2005 actual, primarily due to higher pension and OPEB expenses, overall higher corporate support and other centrally held costs.

Pension and OPEB expenses increased for 2006 actual costs versus 2005 actual mainly due to changes in assumptions in the discount rate from 6.0 percent to 5.0 percent and inflation rate from 2.25 percent to 2.0 percent, normal growth, and claims experienced, partially offset by the impact of the 2005 year end pension fund asset value being higher than the 2004 year end value.

Corporate support and other centrally held costs increased due to increased allocations from corporate support groups to regulated hydroelectric. The increase in costs allocated to the regulated hydroelectric facilities was due to an increase in expenditures and effort in support of the Niagara Tunnel project. As well, costs for Finance, Executive Office, and Law increased, due to a new dedicated controllership group and support for the Niagara Tunnel project, and First Nations negotiations.

2005 Actual versus 2005 Budget Regulated Hydroelectric
Corporate support and centrally held costs decreased by $3.9M primarily due to lower costs in corporate support, lower than planned insurance costs, and lower other centrally held costs related to other corporate costs.

The lower costs incurred by corporate support during 2005 compared to budget are due to the following:

- CIO costs decreased due to OPG’s share of cost reductions achieved by NHSS, lower license costs, and reduced spending on enhancement work from NHSS.
- Finance costs were lower due to lower staff levels.

Insurance was lower due to lower than planned premiums and amounts received for prior years’ claims.
4.0 PERIOD-OVER-PERIOD CHANGES - BRIDGE AND TEST PERIOD NUCLEAR

OM&A

Exhibit F3-T1-S2 Tables 2a and 2b provide details on period-over-period changes for the bridge and test period.

2009 Plan versus 2008 Plan Nuclear
Corporate support and centrally held costs decrease by $26.8M for 2009 plan versus 2008 plan, primarily due to decreases in pension and OPEB expenses and other centrally held costs. Pension and OPEB expenses decrease mainly due to the net impact of changes in pension asset value and pension obligation. Other centrally held costs decreased due to a lower fiscal calendar adjustment.

2008 Plan versus 2007 Actual Nuclear
Corporate support and centrally held costs increase by $10.2M in 2008 compared to 2007 due to higher corporate support costs and IESO non-energy charges, partially offset by lower centrally held pension and OPEB expenses and other centrally held costs.

Expected cost increases in the corporate support groups are primarily due to the following:

- CIO costs increase mainly due to a series of special initiatives, such as the relocation of multiple data centres, annual cost escalation based on a cost-of-living adjustment and the consumer price index pursuant to the New Horizon System Solutions (“NHSS”) outsourcing agreement (discussed in Ex. F3-T1-S1), increased business demand for IT services including ongoing support for new systems, and a non-recurring reduction in 2007 costs as a result of credits received from NHSS related to prior years.

- Corporate Affairs costs increase mainly due to activities associated with the OEB payment amounts hearing, community engagement initiatives, and initiatives related to community and sponsorship advertising.
Finance costs increase mainly for support of new nuclear development and nuclear refurbishment initiatives and activities related to internal audit and internal control programs.

Energy Markets costs increase due to the organizational transfer of the Sustainable Development group from Corporate Centre and activities in support of pandemic planning.

Corporate Centre costs remain constant overall; however, higher legal costs associated with the OEB payment amounts hearing are offset by the transfer of the Sustainable Development group to Energy Markets.

The forecast of IESO non-energy charges increases in 2008 due to the inclusion of a forecast of the Global Adjustment and the OPG Rebate, which were not included in the 2005-2007 budgets for centrally held costs and which are not presented as part of 2005-2007 actual costs.

Pension and OPEB expenses decrease mainly due to the net impact of changes in assumptions for the discount rate from 5.25 percent to 5.6 percent and for the inflation rate, and net changes in the long term growth rate in the pension fund asset value being higher than the growth in the pension obligation, partially offset by 2007 year-end pension fund value being lower than expected. The discount rate change is based on changes in representative AA corporate bond yields used in establishing the discount rate, as discussed in Ex. F3-T4-S1.

Other centrally held costs decrease mainly as a result of a lower Ontario Nuclear Funds Agreement guarantee fee in 2008 and non-recurring environmental charges incurred in 2007, partially offset by a higher fiscal calendar adjustment in 2008.

2007 Actual versus 2007 Budget Nuclear

Corporate support and centrally held costs were lower than budget by $62.0M for 2007. The lower costs were mainly due to lower pension and OPEB costs reflecting a change in the discount rate from 5.0 percent to 5.25, lower IESO non-energy charges, and a largely
unspent centrally held contingency for unforeseen events and OEB related activities. Centrally held costs assigned and allocated to the regulated business do not include any contingencies in the 2008 and 2009 budgets.

IESO non-energy charges were lower than budget due to changes in the volume of load consumption and changes in the amount and types of settlement charges that apply to these loads.

2007 Actual versus 2006 Actual Nuclear

Corporate support and centrally held costs were higher by $23.6M in 2007 than in 2006, primarily due to increases in corporate support costs and a higher fiscal calendar adjustment, partially offset by a decrease in centrally held pension and OPEB expenses.

The increases in costs by the corporate support groups are due to the following:

- CIO costs increase due to an increase in the materiality threshold for capitalization of certain expenditures, such as low-value computer and other IT equipment, incurred starting in 2007 to $25,000 (refer to Ex. A2-T2-S1 for further discussion), additional IT support as a result of business unit requirements for data storage and telecommunication growth, and higher project costs relating to the nuclear project management system project to improve resource management and costs. The nuclear project management system project includes the purchase, integration, and implementation of software, processes, and organization changes to improve Nuclear’s ability to manage nuclear projects.

- Real Estate costs increase due to additional support for nuclear training, and purchases of furniture and office equipment.

- Energy markets costs increase due to costs incurred for emergency preparedness.

- All corporate support groups costs increased in part due to economic increases, including labour cost escalation discussed in Ex. F3-T4-S1.

Other centrally held costs increased due to a higher fiscal calendar adjustment.
The higher corporate support and other centrally held costs were partially offset by lower pension and OPEB expenses reflecting a change in the discount from 5.0 percent to 5.25 percent and an increase in the amounts charged to the business units via the payroll burden.

5.0 PERIOD-OVER-PERIOD CHANGES - HISTORICAL PERIOD NUCLEAR OM&A

Exhibit F3-T1-S2 Table 2a provides details on period-over-period changes for the historical period.

2006 Actual versus 2006 Budget Nuclear

Corporate support and centrally held costs increased by $9.7M for 2006 actual versus 2006 budget, primarily due to higher pension and OPEB expenses partially offset by lower costs for the corporate support, insurance, and other centrally held costs.

Pension and OPEB expenses increased for 2006 actual versus 2006 budget mainly due to changes in assumptions in the discount rate from 5.4 percent to 5.0 percent partially offset by the 2005 year-end pension fund asset value being higher than budget value.

The lower costs incurred by corporate support during 2006 compared to budget are due to the following:

- CIO costs decreased due to lower NHSS costs, deferral of projects, reduced telecommunications costs, and lower software and applications costs.

- Insurance was lower due to lower than planned premiums.

- Other centrally held costs decreased due to lower than planned OEB related costs.

2006 Actual versus 2005 Actual Nuclear

Corporate support and centrally held costs increased by $67.0M for 2006 actual versus 2005 actual primarily due to higher pension and OPEB expenses, partially offset by lower other centrally held costs.
Pension and OPEB expenses increased for 2006 actual costs versus 2005 actual mainly due to, changes in assumptions in the discount rate from 6.0 percent to 5.0 percent and inflation rate from 2.25 percent to 2.0 percent, normal growth, and claims experience, partially offset by 2005 year end pension fund asset value being higher than the 2004 year end value.

Corporate support and other centrally held costs decreased due to a decrease in allocations from corporate support groups to Nuclear. The decrease in costs allocated to the nuclear facilities was due to an increase in expenditures and effort in support of the hydroelectric business as a result of the Niagara Tunnel project. Real Estate costs allocated to Nuclear also decreased mainly due to the reassignment of a portion of Real Estate costs related to the asset service fees charged to the business units (discussed in Ex. F3-T3-S1). Other centrally held costs also decreased due to lower costs resulting from the fiscal calendar adjustment partially offset by higher performance incentives paid to staff.

2005 Actual versus 2005 Budget Nuclear
Corporate support and centrally held costs decreased by $40.7M for 2005 actual versus 2005 budget, primarily due to lower costs in corporate support, lower than planned insurance costs, and lower other centrally held costs.

The lower costs incurred by corporate support during 2005 compared to budget are due to the following:
- CIO costs decreased due to OPG’s share of cost reductions achieved by NHSS, lower license costs, and reduced spending on enhancement work from NHSS.
- Finance costs were lower due to lower staff levels.

Insurance was lower due to lower than planned premiums and amounts received for prior years claims.