COMPARISON OF OTHER OPERATING COST ITEMS

1.0 DEPRECIATION

With the exception of OPG’s 2007 budget to actual variance explained below, OPG’s hydroelectric budgeted and actual depreciation expense has been stable over the 2005 - 2007 period, and is expected to remain relatively stable throughout the test period. As a result, this section explains the main factors contributing to depreciation expense variances in OPG’s nuclear operations and only the 2007 hydroelectric depreciation expense variance.

2009 Plan versus 2008 Plan

Planned depreciation for 2009 is expected to be higher than the 2008 planned depreciation for OPG’s nuclear operations due to in-service additions in 2009 and a full year of depreciation related to additions in 2008.

The main in-service additions in 2009 relate to the following nuclear projects (discussed in Ex. D2-T1-S2): security fence project, auxiliary heating system at Darlington, second Darlington full scope simulator, and controlled area improvements. The main in-service additions in 2008 relate to the following projects (discussed in Ex. D2-T1-S2): used fuel dry storage in station modifications at Darlington, calandria vault inspection tooling at Pickering A, security monitoring room, and security fence project.

2008 Plan versus 2007 Actual

Nuclear depreciation is expected to be slightly lower in 2008 than in 2007 mainly due to an $18M decrease due to the extension of the estimated service life, for accounting purposes, of the Darlington Generating Station to 2019 from the previous estimated end-of-service life date of 2017, which is effective January 1, 2008 (as discussed in Ex. F3-T2-S1), offset by a $13M increase due to a full year effect of the expected depreciation expense related to the portion of the auxiliary power system installation project at Pickering B that came into service toward the end of 2007.

2007 Actual versus 2007 Budget
Nuclear depreciation remained relatively stable when compared to budget.

Actual hydroelectric depreciation was higher than the budgeted amount in 2007 primarily due to removal costs of approximately $4.6M charged to depreciation in accordance with OPG's policy to include removal costs in depreciation expense (as described in Ex. F3-T2-S1, Section 3.0). These costs, which were not in the budget, related mainly to the removal of the old accelerator wall as part of the Niagara Tunnel project.

2007 Actual versus 2006 Actual

Nuclear depreciation was significantly higher in 2007 than in 2006. The increase was primarily the result of approximately $48M of additional depreciation due to the increase in nuclear fixed asset values related to the increase in the nuclear liabilities that occurred on December 31, 2006 (refer to Ex. H1-T1-S1 for the discussion of the increase in nuclear liabilities and Ex. H1-T1-S2 for the discussion of the relationship between nuclear liabilities and fixed asset values). In-service additions during 2007, the largest being the auxiliary power system installation at the Pickering B Generating Station, as well as a full year of depreciation related to 2006 in-service additions (described above) also contributed approximately $11M to the increase in nuclear depreciation year-over-year.

2006 Actual versus 2005 Actual

Actual nuclear depreciation was lower in 2006 primarily as a net result of the following factors:

1. $36M decrease due to the extension of the estimated service life, for accounting purposes, of the Pickering B generating station to 2014 from the previous estimated end-of-service life date of 2009, which was effective January 1, 2006 (as discussed in Ex. F3-T2-S1).

2. $13M decrease due to the extension of the estimated service life of Pickering A, Unit 4 from 2017 to 2021 during the fourth quarter of 2005 (as discussed in Ex. F3-T2-S1).

3. $18M increase due to the coming into service of the refurbished Pickering A, Unit 1 in November of 2005, which resulted in a full year of depreciation expense related to this unit during 2006 as compared to 2005.
4. $18M increase due to in-service additions of several nuclear projects during 2006, including Darlington and Pickering security optimization, Darlington fire protection and feeder integrity.

**2006 Actual versus 2006 Budget**

Nuclear depreciation is lower than budget in 2006 mainly as a result of the extension of the estimated service lives of the Pickering B Generating Station and Pickering A, Unit 4 for accounting purposes (as noted above), the impact of which was partially offset by higher than planned in-service additions related to nuclear projects. The extensions of the service lives contributed $36M and $13M, respectively, to the difference between actual and budgeted amounts of nuclear depreciation.

**2005 Actual versus 2005 Budget**

Actual nuclear depreciation remained relatively stable when compared to budget.

**2.0 REGULATORY INCOME TAXES**


**2006 Actual versus 2006 Budget**

Actual 2006 tax expense was lower than budget due to the fact that the 2006 budget included a provision for large corporations tax whereas the 2006 actual income tax amount reflects the elimination of large corporations tax by the federal government effective in 2006.

**2005 Actual versus 2006 Actual**

Actual 2006 tax expense was lower than in 2005 due to the elimination of the large corporations tax effective in 2006 by the federal government.
2005 Actual versus 2005 Budget

The income tax expense in the 2005 budget is higher than the 2005 actual due to the different methodology used in calculating the large corporations tax. The actual amount is calculated using the rate base, as described in Ex. F3-T2-S1, whereas the budgeted amount was calculated using the forecasted taxable capital as determined in accordance with appropriate tax legislation.

3.0 ONTARIO CAPITAL TAX

2009 Plan versus 2008 Plan

The Ontario capital tax for 2009 is expected to remain relatively stable when compared to 2008.

2008 Plan versus 2007 Actual

The Ontario capital tax for 2008 is expected to remain relatively stable when compared to 2007.

2007 Actual versus 2007 Budget

The decrease in actual Ontario capital tax in 2007 when compared to budget is primarily due to the rate reduction announced late in 2007 from the budgeted rate of 0.285 percent to 0.225 percent.

2007 Actual versus 2006 Actual

The decrease in the Ontario capital tax for 2007 compared to 2006 is primarily due to the rate reduction from 0.300 percent in 2006 to 0.225 percent in 2007, partially offset by the increase in rate base for nuclear as discussed in Ex. B1-T1-S1.

2006 Actual versus 2006 Budget

The budgeted amount for 2006 is higher than actual due to the different methodology used in calculating Ontario capital tax for budget and actual purposes. The actual amount is calculated using the rate base, as described in Ex. F3-T2-S1, whereas the budgeted amount
is calculated using the forecasted taxable capital as determined in accordance with appropriate tax legislation.

4.0 PROPERTY TAX

As discussed Ex. F3-T2-S1, OPG’s property tax expense related to the regulated hydroelectric facilities is immaterial. OPG has provided variance explanations related to its nuclear operations below:

2005 Actual versus 2006 Actual
The year-over-year variance is not material.

2005 Actual versus 2005 Budget
Ontario capital tax in the 2005 budget is higher than the 2005 actual mainly due to the different methodology used in calculating the Ontario capital tax as discussed above.

2008 Plan versus 2007 Actual
The budgeted property tax expense for nuclear in 2008 is expected to be higher than the 2007 actual expense primarily because the 2007 actual expense includes a refund to OPG of $6.6M associated with the successful resolution of municipal tax appeals with the City of Pickering.

2007 Actual versus 2007 Budget
The 2007 budgeted amount for property tax expense is higher than the 2007 actual expense because the budget assumed an amount of $6.9M related to an amendment to O. Reg. 224/00 described in Ex. F3-T2-S1 (the “expected amendment”) and because the budget did not reflect the refund to OPG of $6.6M associated with the resolution of the municipal tax appeals with the City of Pickering.
2007 Actual versus 2006 Actual

The actual nuclear property tax expense for 2007 is lower than the expense in 2006 primarily due to the refund to OPG of $6.6M in 2007 associated with the resolution of the municipal tax appeals with the City of Pickering.

2006 Actual versus 2006 Budget

The actual nuclear property tax expense for 2006 is lower compared to the 2006 budgeted amount primarily due to a budgeted cost of $6.8M for the expected amendment.

2006 Actual versus 2005 Actual

The increase in the property tax expense for Nuclear in 2006 compared to 2005 is due primarily to the tax recovery of $8.8M realized in 2005 resulting from the settlement of municipal tax appeals for the 1999 to 2002 taxation years.

2005 Actual versus 2005 Budget

The higher 2005 budgeted property tax expense for Nuclear compared to 2005 actual expense is due primarily to two factors. Approximately $11.1M was budgeted for the expected amendment and the actual tax refund for the settlement of municipal tax appeals was $3.4M higher than budgeted.