COMPARISON OF ASSET SERVICE FEES

1.0 PURPOSE

The purpose of this evidence is to present the period-over-period changes in the asset service fees charged to the regulated hydroelectric and nuclear businesses.

2.0 OVERVIEW

As shown in Ex. F3-T3-S2 Tables 1 and 2, asset service fees charged to regulated hydroelectric are not material. The fee for nuclear decreases in 2008 and 2009. The decreases in the fee for nuclear in 2008 and 2009 as compared to 2007 primarily reflect lower expected purchases of IT assets as compared to prior years, partially offset by a higher rate of return applied to the asset values. The fee charged to nuclear in 2006 and 2007 is relatively consistent. The increase in the asset service fee in 2006 as compared to 2005 is largely due to refinements in the fee calculation methodology described below.

3.0 PERIOD-OVER-PERIOD CHANGES

2009 Plan versus 2008 Plan

The asset service fee for the nuclear business unit in 2009 is expected to be lower by $4.4M than the 2008 fee. The decrease is primarily due to the declining net book value of IT Assets, resulting from ongoing depreciation and fewer expected capital additions than in years prior to 2008. The asset service fee charged to the regulated hydroelectric business unit remains relatively stable and is not material.

2008 Plan versus 2007 Actual

The asset service fee charged to the nuclear business unit is expected to be lower by $3.3M in 2008 as compared to 2007 actual. Budgeted depreciation expense for all of OPG’s IT Assets is expected to be lower by $4.0M in 2008 as compared to 2007. This is due to the decreasing net book value of IT assets, resulting from ongoing depreciation and fewer expected capital additions. The lower net book value of the assets also results in a lower tax-adjusted return component in the service fee. However, the impact of the decrease in the net book value on the return component is more than offset by the increase in the after-tax rate
of return from 5.55 percent in 2007 to a rate that is consistent with the proposed weighted average cost of capital rate for the regulated operations in 2008 as per Exhibit C. Overall, the tax adjusted return component for OPG’s centrally-held assets increases from $15.9M in 2007 to $18.7M in 2008. Although the asset service fee charged to the regulated hydroelectric business unit is also impacted by the above factors, its magnitude remains immaterial year-over-year.

4.0 PERIOD-OVER-PERIOD CHANGES

2007 Actual versus 2007 Budget
The actual asset service fee charged to the regulated operations was $4.1M greater than budget due to higher IT asset depreciation expense of $4.9M, partially offset by lower than planned operating expenses of $0.8M resulting from favourable utility costs and reduced furniture expenditures at OPG’s Head Office. The higher IT asset depreciation expense was a result of an increase in assets placed in service during 2007.

2007 Actual versus 2006 Actual
The actual asset service fee charged to the regulated operations in 2007 was relatively consistent with the actual amount charged in 2006.

2006 Actual versus 2006 Budget
The actual asset service fee charged to the regulated operations was consistent with budgeted amounts.

2006 Actual versus 2005 Actual
The increase in the actual service fee charged in 2006 for both nuclear and regulated hydroelectric is primarily attributable to the refinement of the calculation of the fee that took place in conjunction with the review of the asset service fee methodology by R.J. Rudden. The refinements included (1) the expansion of the scope of the service fee concept to all centrally held assets used by generation segments in order to achieve consistent treatment;
and (2) the inclusion of an apportionment of operating costs incurred by the Real Estate corporate function.

2005 Actual versus 2005 Budget

The actual asset service fee charged to the regulated operations was consistent with budgeted amounts.