ONTARIO POWER GENERATION INC.
TORONTO, ONTARIO

REVIEW OF THE ONTARIO POWER GENERATION INC. DEPRECIATION REVIEW PROCESS

REPORT ON THE REVIEW CONDUCTED BY
GANNETT FLEMING INC.

March 2007

Harrisburg, Pennsylvania                      Calgary, Alberta                 Valley Forge, Pennsylvania
March 1, 2007

Lubna Ladak
Controller, Regulatory Finance
Ontario Power Generation Inc.
700 University Avenue
Toronto, Ontario M5G

Ms. Ladak:

Pursuant to your request, we have conducted a review of the processes, procedures and methods used by Ontario Power Generation Inc., as a rate regulated utility, to review its depreciation expense. Our report presents a description of the methods used in our review, the findings of our review and our recommendations for future depreciation reviews conducted by Ontario Power Generation Inc.

Gannett Fleming has found that the processes, procedures and methods followed by Ontario Power Generation Inc. adequately meet regulatory objectives regarding depreciation generally accepted by Canadian regulatory authorities. These processes, procedures and methods should also lead to a reasonable and appropriate calculation of depreciation expense for inclusion in the revenue requirement for ratemaking purposes. Gannett Fleming makes certain recommendations, which in our view, would further enhance the extent to which these regulatory objectives are being met by Ontario Power Generation Inc.

Gannett Fleming gratefully acknowledges the access to Ontario Power Generation Inc. personnel and information in the completion of the review.

Respectfully submitted,

GANNETT FLEMING INC.
VALUATION AND RATE DIVISION

LARRY E. KENNEDY
Director, Canadian Services
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ONTARIO POWER GENERATION INC.
TORONTO, ONTARIO

DEPRECIATION REVIEW PROCESS

PART I – INTRODUCTION

SCOPE

This report sets forth the results of a review conducted by Gannett Fleming Inc. ("Gannett Fleming") to assess the adequacy of the Ontario Power Generation Inc. ("OPG") depreciation review processes, procedures and methods (the “Depreciation Review Process”) to meet generally accepted depreciation objectives for rate regulated companies. OPG retained Gannett Fleming to provide an opinion on the degree of adequacy to which the Depreciation Review Process used by OPG achieves those objectives that are generally accepted by Canadian regulatory authorities, and to specifically provide comment on the ability of OPG’s process to result in an appropriate amount of depreciation expense as a component of the revenue requirement. This report is based on the objectives of a well defined depreciation review process and the ability of OPG’s current Depreciation Review Process to adequately meet these objectives.

In completion of this assignment Gannett Fleming developed a set of generally accepted depreciation objectives for rate regulated companies and assessed the degree to which OPG’s processes, procedures and methods meet these objectives. The degree to which OPG meets these regulatory objectives was evaluated based on
information gained from on-site interviews with representatives of OPG Management, Operating, and Engineering staff as well as with the Chair and members of OPG’s Depreciation Review Committee (the “DRC”).Additionally, Gannett Fleming reviewed OPG’s documentation related to its depreciation policies and the DRC’s report and working papers.

SUMMARY OF FINDINGS

The development and administration of depreciation policy currently occurs within the Finance Group of OPG. Ultimately, the Chief Financial Officer (“CFO”) of the company is responsible for approving depreciation policy. The review of the average service life indications of OPG’s regulated plant is completed through the work of a multi-departmental DRC. The DRC is accountable for providing a formal engineering, technical and financial review of the service lives of OPG’s fixed assets. Based on our review of the DRC report and working papers for the 2006 DRC recommendations, Gannett Fleming confirms that the processes, procedures and methods used by the DRC as part of OPG’s Depreciation Review Process are sufficient to address generally accepted depreciation objectives for rate regulated companies. Additionally, OPG’s current practices should result in a reasonable determination of average service lives and a reasonable and appropriate amount of depreciation expense to be included in OPG’s revenue requirement request. It should be noted that Gannett Fleming did not perform a review of the actual average service lives of the regulated assets. Rather, Gannett Fleming reviewed the adequacy of OPG’s Depreciation Review Process to achieve generally accepted regulatory objectives related to depreciation.

Gannett Fleming makes recommendations regarding two main areas, as follows:

- **Independence from Bias** – While Gannett Fleming did not find any instances of a lack of impartiality impacting OPG’s Depreciation Review Process, Gannett Fleming makes the following two recommendations in order to
ensure that the impartiality of the process is not compromised and any external perception of potential bias is removed:

- Establishment of a Depreciation Approvals Committee or similar appropriate internal governance structure whose mandate would be to approve the DRC report and OPG’s depreciation review policies; and
- Where appropriate, increased use of benchmarking of average asset service life estimates to a peer group of North American utilities.

- **Transparency and Understandability** – Gannett Fleming recommends that, for use in the regulatory context, the DRC report be re-structured to better outline OPG’s depreciation policies and objectives with respect to depreciation and the DRC process, and to include additional detail for explanations and justification of the average life estimates contained in the report.

In making the recommendation that OPG establish a Depreciation Approvals Committee or other appropriate internal governance structure within the company, Gannett Fleming suggests that this committee be charged with the specific responsibility of approving depreciation review policies and procedures and have the ultimate responsibility for the recommendations contained within the DRC report. Gannett Fleming is of the view that the current DRC should be provided with specific criteria regarding its composition and selection of asset accounts to review and further should receive specific direction with regard to review procedures directly from the committee or other governance structure. Additionally, the DRC should file its report with, and seek approval of the average service life estimates from this committee or governance structure.

Currently, the responsibility for depreciation rests within the Finance Group, which sets accounting policy, calculates depreciation expense, and coordinates the annual review of service lives through the DRC process. Gannett Fleming notes that
the DRC process does rely to a significant extent on the input from the lines of business with respect to the selection of assets for review and the actual estimates of average service lives. The recommendations of the DRC are approved by the CFO and the heads of OPG’s lines of business. Establishing a Depreciation Approvals Committee or other appropriate internal governance structure, which would include members from outside of the Finance Group, would provide further independence and increased structure to the Depreciation Review Process. Gannett Fleming notes that its review did not yield any evidence that the current DRC process lacks impartiality.

Gannett Fleming also recommends that OPG benchmark the average service lives of certain generation assets to those of a peer group of North American utilities in order to identify asset groups that may require more detailed assessment and to provide additional basis for assessing the reasonability for OPG’s depreciation expense included in the revenue requirement proposal. Finally, Gannett Fleming recommends that the DRC report be enhanced to better outline the company’s policies, objectives and average service life justifications with respect to depreciation and the DRC process. The purpose of this recommendation is to increase the transparency and understandability of OPG’s depreciation policies and Depreciation Review Process for the benefit of ratepayers, the regulator, and other external stakeholders in the regulatory process. Alternatively, OPG may consider preparing a separate document to accompany the existing DRC report.
PART II
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PART II – REVIEW

DEPRECIATION IN A REGULATED ENVIRONMENT

Depreciation, in public utility regulation, is the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among causes to be given consideration are wear and tear, deterioration, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and the requirements of public authorities.¹

Development of an appropriate and reasonable level of depreciation requires the development of depreciation policies, practices and detailed procedures, which are consistent with generally accepted regulatory objectives. One aspect of the practices and procedures is a depreciation review process, part of which includes the selection of the estimated service life for each of the assets or asset classes. In circumstances where group accounting practices are followed, the depreciation review process determines an average service life and, where appropriate, a retirement dispersion pattern for a class of assets. In circumstances where the utility follows a site or asset accounting practice, a depreciation review process will determine an average service life estimate for each depreciable asset or asset type.

REGULATORY OBJECTIVES RELATED TO DEPRECIATION

The review of depreciation and average service lives is undertaken to establish a depreciation expense for inclusion in the proposed revenue requirement that is reasonable in the circumstances (i.e., to enable the regulator to meet its statutory obligation to establish just and reasonable rates). A reasonable level of depreciation expense will properly recognize the consumption of the service value of a utility’s assets

and will provide the appropriate level of rate base upon which the company earns a regulated return.

Regulators balance the level of precision required to enable them to determine that rates are just and reasonable against the costs of achieving increased levels of precision. For regulated utilities, the depreciation review process must evolve to meet the objectives and requirements of the regulator.

The following generally accepted regulatory objectives impact the depreciation review process and the depreciation amounts included in the revenue requirement of a regulated utility:

1) **Effectiveness**
   Ensure that the depreciation method and depreciation review techniques provide a reasonable degree of assurance that the depreciation amount included in the revenue requirement is appropriate.\(^2\) The depreciation method should also be reliable and systematic, as consistent with the requirements outlined by Generally Accepted Accounting Principles ("GAAP") in Canada governing depreciation.\(^3\)

2) **Efficiency**
   Ensure that the depreciation method results in positive net benefits (i.e., the depreciation method should not drive the design and implementation of asset management systems, rather the chosen depreciation method should benefit from and utilize whatever systems management considers necessary to provide efficient utility service). Incremental system and process requirements necessary to support the regulator’s determination of just and reasonable rates should be developed based on the assessment of both the benefits and the incremental costs of implementation and operation.\(^4\),\(^5\)

3) **Transparency and Understandability**
   Ensure that sufficient, appropriate information is provided to facilitate the review of the utility’s depreciation method and the unique utility circumstances that the method has been designed to address.\(^6\),\(^7\)

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\(^2\) As stated in the National Energy Board of Canada, Uniform Accounting Regulations
\(^3\) As stated in the Canadian Institute of Chartered Accountants Handbook, Section 3061.28
\(^4\) As stated in Alberta Energy Board Decision 2004-066, relating to a 2004 Distribution Tariff Application by ENMAX Power Corporation
\(^5\) As stated in Alberta Energy Board Decision 2006-002, relating to a 2005 Distribution Tariff Application by ENMAX Power Corporation
\(^6\) Ibid footnote 2
\(^7\) As discussed in Ontario Energy Board Decision RP-1998-0001, relating to a Transitional Rate Order for Distribution Rates for Ontario Hydro Services Company, dated April 1, 1999, pages 68 and 69
4) **Intergenerational Equity**
   Ensure that the depreciation method provides a reasonable alignment between the recovery of costs in rates and the benefits derived by ratepayers from the consumption of the service value of the assets.\(^8,\(^9\)

5) **Capital Attraction**
   Ensure that the depreciation method enables a utility’s investors to recover their capital investment.\(^10\)

6) **Independence from Bias**
   Ensure that the development and review of the depreciation policies and rates occurs in an impartial manner and free from any overriding bias from the company to arrive at predetermined conclusions.\(^11\)

**CURRENT OPG PROCESSES, PROCEDURES AND METHODS**

OPG reviews the average service life of its regulated plant through the work of a multi-departmental DRC. The DRC is accountable for providing a formal engineering, technical and financial review of the service lives of fixed assets. The DRC includes representatives from the lines of business and other corporate functions who are responsible for operating and maintaining the fixed assets, in addition to representatives having experience in finance, planning, regulation and accounting. The DRC recommendations are documented in an annual report which is submitted to the CFO and line of business Executive Vice Presidents ("EVPs") for approval. Following approval, the DRC recommendations are normally implemented on January 1 of the following year. Generally, the DRC process includes the following steps:

- Nomination of members of the DRC by line of business and functional area leaders
- Initial meeting of the DRC to discuss high level team objectives and to establish key contacts in the organization

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\(^8\) Ibid footnote 1
\(^9\) As stated in the Canadian Institute of Chartered Accountants Handbook, Section 3061.29
\(^10\) Ibid footnote 2
\(^11\) Ibid footnotes 2, 7
• Selection of assets for review based on principles established by the DRC at the outset of the review

• Assessment of services lives of selected asset classes by operational experts and documentation of the related facts and conclusions in the Depreciation Review Assessment Asset Class record (the “Technical Report”). Technical Reports provide a description of assets included in the class, a summary of operating experience and other factors (such as asset condition assessments or external data) impacting the service life estimate, and the overall recommendation regarding the service life estimate by operational experts.

• Review of the Technical Reports by the DRC

• Development of the draft recommendations and report by the Chair of the DRC

• Review and approval of the report by the DRC

• Submission of the DRC recommendations to OPG’s CFO and line of business EVPs

Implementation of recommendations on January 1 of the following year based on approval by the CFO and line of business EVPs

The regulated assets of OPG are studied by the DRC in combination with the non-regulated assets. The regulated assets include a large hydroelectric generating plant group (the “Niagara” plant group) and a large hydroelectric generating plant (the “Saunders” plant). The Niagara plant group is comprised of five sites in the Niagara region of Ontario and includes 38 generating units. The Saunders plant in the Cornwall area of Ontario comprises 16 units.

The regulated assets also include three nuclear generating plants (the “Darlington”, “Pickering A” and “Pickering B” plants). The Darlington plant includes four generating units while the two Pickering plants include eight units (of which two units are currently being placed in safe storage). The depreciation rates for these regulated hydroelectric and nuclear plants are developed as part of the DRC review of OPG’s generation facilities, which also include approximately 60 non-regulated hydroelectric
sites, five fossil sites, and one additional nuclear plant (the “Bruce” plant) that is leased to and operated by an independent third party. The DRC also reviews the service lives of non-generation fixed assets, such as buildings and computer systems.

ASSESSMENT OF OPG’S PROCESSES

Overview

In order to determine the degree to which OPG’s depreciation review processes, procedures and methods meet the regulatory objectives related to depreciation, Gannett Fleming’s review assessed the following:

• OPG’s process for the determination and administration of depreciation policy;
• OPG’s process for establishing average service lives;
• The 2006 DRC documentation related to its purpose, structure and operation, including the asset selection process;
• The 2006 DRC documentation and processes, procedures and methods related to its review of hydroelectric generation assets;
• The 2006 DRC documentation and processes, procedures and methods related to its review of nuclear generation assets;
• The 2006 DRC documentation and processes, procedures and methods related to its review of non-generation assets; and
• The process related to the review and approval of the DRC report.

To the extent that Gannett Fleming determined that OPG’s practices warranted enhancement to address generally accepted regulatory objectives related to depreciation, the Gannett Fleming review incorporated a review of OPG’s practices against commonly used methods for the review of average service life estimates and depreciation rates by regulated utilities throughout North America. The intent of the review was to identify options available to improve the capability of OPG’s depreciation review practices to achieve specific regulatory objectives. The current state of OPG’s
systems, records and procedures was then considered to assess the cost and implementation challenges for each option.

**Review of OPG’s Processes**

The following discussion provides a brief overview of the extent to which OPG’s current depreciation review processes, procedures and methods meet each of the regulatory objectives described in the earlier section of this report.

**Effectiveness**  OPG’s Depreciation Review Process adequately meets this regulatory objective and should result in an appropriate depreciation expense amount for inclusion in the revenue requirement. A review of average service lives by trained and experienced internal experts, who are knowledgeable about the condition of the assets and the company’s intentions with respect to their use, is an effective and valid technique for performing depreciation reviews, particularly for generation utilities. While statistical analysis of retirement data and benchmarking are other common methods for depreciation reviews used by energy companies, electricity generation utilities tend to have specialized, location specific economic asset life considerations and thus tend to have limited retirement experience that is meaningful to facilities at other locations, either within the company or at other electricity generation companies. This has particular relevance to OPG’s nuclear assets, which are operated using CANDU nuclear technology. It should be noted that OPG depreciates its nuclear asset classes on a straight-line basis over the shorter of the classes’ and the applicable nuclear facilities’ estimated useful lives.

CANDU technology is currently used by only two other generation utilities in North America, both of which are Canadian, thus providing only a limited population against which to benchmark the service lives of OPG’s nuclear facilities. However, selective benchmarking of service lives of certain nuclear asset subgroups to a peer group of North American utilities may have some benefit insofar that differences in technology are appropriately considered. For instance, benchmarking information can be used for average life estimates of certain equipment, such as radiation monitoring systems, nuclear training simulators, and other accessory station equipment, and the
conventional components of nuclear plants, such as system transformers and rotors. OPG’s ability to benchmark the overall service lives of its nuclear facilities is limited by the fact that nuclear generation utilities in the United States consider the term of their operating licenses as a primary indicator for determining useful lives of their facilities. The duration of operating licenses is not a factor considered by OPG in establishing useful lives for nuclear facilities because the Canadian Nuclear Safety Commission issues licenses for significantly shorter terms. These terms are not reflective of the economic or operational lives of the nuclear facilities.

Limitations for benchmarking of OPG’s hydroelectric generation assets to a peer group of North American utilities are less restrictive than those for its nuclear assets, due to the more widespread use of hydroelectric generation in Canada. Components of a typical hydroelectric generation plant also do not vary as much with the type of technology used. Therefore, where appropriate, such benchmarking is recommended for OPG’s hydroelectric generation assets.

Gannett Fleming further notes that a number of OPG’s generation assets, which may normally lend themselves to statistical retirement analysis, are not studied using statistical methods by OPG due, in large part, to the fact that these assets have been re-valued for financial and regulatory reporting purposes as at April 1, 1999 (the date on which OPG was formed and effectively purchased the assets from the former Ontario Hydro). As such, much of the original cost and retirement history that would be required in order to perform a statistical retirement analysis would need to be re-created. Even in the circumstances that this data could be re-created, the development of this data would be cost prohibitive, and, in the view of Gannett Fleming, would not provide sufficient additional benefit to warrant the cost associated with its development.

Gannett Fleming also notes that the implementation of the average service life estimates is performed in a reliable and systematic manner. The implementation is discussed within the DRC report that is presented for approval to the CFO of the company. The approved recommendations of the DRC are normally implemented in accordance with the plan described within the DRC report in a rational and systematic manner. The depreciation method used by OPG (predominantly straight line) is compliant with Canadian GAAP as governed by the Canadian Institute of Chartered
Accountants Handbook and is the depreciation method prescribed by the majority of Canadian regulatory authorities.

**Efficiency** OPG's Depreciation Review Process is efficient. The DRC is comprised of internal subject matter experts, and relies upon systems that are in place for operational and reporting purposes. The use of internal company resources in the development of the average service life estimates results in a DRC process that is cost effective to the ratepayer. Once assets are selected for review by the DRC, the process leading to the average service life recommendation is completed through internal company resources and in a manner that should lead to reasonable and appropriate average service life recommendations. The DRC process adequately meets the regulatory intention for companies to maximize the use of internal information and processes without burdening the ratepayer with significant costs associated with the implementation of new systems or processes. Gannett Fleming is of the view that the DRC process for the determination of average service lives is able to gather and process the information that is required through existing operational and accounting systems. Gannett Fleming’s recommendation to introduce benchmarking of average services lives of certain assets to a peer group of utilities would not compromise the overall efficiency of OPG’s Depreciation Review Process because benchmarking would focus on assets for which the necessary data is available and accessible from information published within the industry and from that which is in the public domain in regulatory forums. Once the appropriate sources of information are established, the actual collection of the data on a periodic basis would not be cost prohibitive.

**Transparency and Understandability** The DRC recommendations with regard to the average service life estimates are supported through the issuance of the DRC report to the CFO and line of business EVPs. The DRC report partially achieves the objective of Transparency and Understandability by including a reasonable description of the following: the scope of work performed by the DRC, the principles underlying the selection of assets to be reviewed by the DRC, recommendations and supporting
rationale for average service life changes, and recommendations that should be considered in future DRC reviews.

Gannett Fleming notes that the primary purpose of the DRC report is to provide estimates of service lives for OPG’s fixed assets. Given that some of OPG’s assets are subject to rate regulation, additional disclosure in the report would be beneficial for complying with this regulatory objective. This would include additional detail regarding the company’s depreciation policy, which is documented in OPG’s Fixed Asset Accounting Procedure, additional detail regarding the Depreciation Review Process, such as specific asset selection criteria and the process for establishing the composition of the DRC, and additional detail for justification of the average service life estimates. Alternatively, Gannett Fleming notes that this information could be outlined in a separate document that can be reviewed in a regulatory proceeding by external stakeholders.

**Intergenerational Equity** The average service life estimates of the assets that are reviewed through the DRC process should be reasonable because internal experts who assess service lives are knowledgeable about the manner and timing of the utilization of these assets. Overall, the depreciation expense resulting from the DRC life estimates will align rate recovery established by the regulator with the receipt of the benefit of the assets in regulated service by ratepayers, as the service life estimates represent the periods of time over which the assets are used to generate electricity. Similarly, costs associated with asset retirement obligations are appropriately recovered during the service lives of related assets.

**Capital Attraction** The average service life estimates developed using the DRC process should result in the recovery of owner investment in a timely manner. The depreciation methods used in the application of average service lives are systematic and rational and, therefore, are appropriate to ensure a fair opportunity for the recovery of investment.
Independence from Bias. The DRC review of average service life estimates is structured in a manner that relies significantly upon the professional views of internal company experts regarding the specific asset classes. In this manner, a potential bias of an internal expert may be carried through to the selection of assets for review and to the final average service life estimates. Gannett Fleming notes that three measures are commonly available to ensure that impartiality of average service life recommendations is preserved, as follows:

1. Review of specific average service life recommendations by an independent external expert;
2. Comparison of the recommended average service life estimates against peer companies; or
3. Review and approval of the specific recommendations for depreciation policies and the average service lives and procedural issues through an internal governance structure within the utility, which is responsible for the overall approval of depreciation review policies and their impact on depreciation expense.

Gannett Fleming notes that in the Ontario Energy Board (the “OEB”) Decision RP-1998-0001 relating to an Ontario Hydro Services Company (“OHSC”) Application, the DRC process was discussed. Generally, the OEB appeared concerned with the independence of the DRC process and recommended that:

1. “OHSC should establish a Depreciation Accounting Responsibility Center in the Finance/Accounting Division, with overall responsibility for determining depreciation accounting policies and accounting practices. The Responsibility Center would compare OHSC’s depreciation policies to industry standards, engage external expertise as required for internal purposes or as deemed necessary by the Board, and set the specific practices governing the collection of data by DRC members, including the use of field inspections and surveys in setting service lives, determining dispersion patterns, etc. The role of the DRC
would be that of providing technical input as required by the Responsibility Center.”

2. “OHSC should conduct appropriate bench-marking analysis of asset life as part of its depreciation study.”

The OEB in Decision RP-1998-0001 appeared to be primarily concerned with the governance of the DRC process and the manner in which any potential lack of impartiality be removed from the process. Gannett Fleming notes that, although the responsibility for depreciation in general falls under the mandate of OPG’s CFO, the current DRC report is filed for review and approval with a number of senior executives of the company (the CFO and line of business EVPs). This approval results in a reasonable level of scrutiny of the DRC process by various stakeholders in the organization, and thus serves to promote the impartiality of the process. However, a specific Depreciation Approval Committee or other appropriate internal governance structure relating to depreciation has not been established within the company. Gannett Fleming views that an appropriately empowered, formalized Depreciation Approvals Committee or other governance structure, which would have the responsibility for overseeing the development of depreciation review policy and standards and for providing direction to the current DRC, will better meet the regulatory objective of Independence from Bias. Such a committee or governance structure would have a balanced representation from various areas of the organization, including Regulatory Affairs, Finance and the operational lines of business. It is envisioned that the DRC would receive instruction, structured criteria relating to its membership and asset selection and other guidance from this committee or other appropriate governance structure. Additionally, the committee may retain independent external expertise to assist in the development of appropriate depreciation review policy and standards and to guide the DRC in the review of the average service life recommendations, as it determines appropriate.

Increased use of benchmarking of average service lives would further serve to preserve the impartiality of the DRC process and would be consistent with the recommendations made by the OEB as part of Decision RP-1998-0001. Specific

11 Ibid footnote 7

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observations related to OPG’s ability to benchmark service lives of its assets were discussed previously in this report.

Notwithstanding the observations noted above, Gannett Fleming, based on its review, has found no evidence that the current DRC process lacks impartiality and is of the view that, overall, the DRC process results in average service lives that are reasonable and establishes an appropriate level of depreciation expense in the revenue requirement.
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PART III – FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

The average service life estimates for OPG’s assets are reviewed by the DRC and are approved by the CFO of the company and leaders of OPG’s lines of business. Gannett Fleming finds that the current process is sufficiently adequate to address most regulatory objectives regarding depreciation, including Effectiveness, Efficiency, Intergenerational Equity, Capital Attraction and Independence from Bias. The Transparency and Understandability objective would be better met if the DRC report or a separate document that would be reviewed in the regulatory forum contained a discussion of the company’s policy and overall objectives regarding depreciation and the DRC process, as well as additional detail for explanations and justification of average life estimates.

Certain aspects of OPG’s Depreciation Review Process relating to the objective of Effectiveness could be refined; however, these refinements would not, in Gannett Fleming’s view, have a material impact on the amount of depreciation expense or the overall adequacy of the process to meet the Effectiveness objective. The refinements relate to the inclusion of benchmarking of average service lives for certain generation assets to a peer group of utilities as part of the DRC process. The adequacy of meeting the objective of Independence from Bias could be enhanced by establishing a Depreciation Approvals Committee or other internal governance structure with the objective of overseeing the development of depreciation review policy and practices, as well as by increasing the use of benchmarking as part of the DRC process.
Notwithstanding the recommendations contained herein, Gannett Fleming does not find that the general DRC process and the 2006 DRC process and report specifically would create any concern that depreciation expense was not reasonable in the circumstances. Gannett Fleming believes that OPG’s current Depreciation Review Process results in the depreciation expense component of the revenue requirement that reasonably and appropriately reflects the consumption of the average service life of OPG’s regulated assets. Gannett Fleming also views that, overall, the DRC process is adequate in meeting the generally accepted regulatory objectives regarding depreciation for regulated North American utilities.