1.0 PURPOSE

This evidence presents period-over-period comparisons of base OM&A cost for the regulated hydroelectric facilities for 2007 - 2012.

2.0 OVERVIEW

This evidence supports the approval sought for regulated hydroelectric base OM&A for the test period. Exhibit F1-T2-S2, Tables 1, 2 and 3 set out the comparison of base OM&A by organizational unit over the 2007 – 2012 period. As per section 2.8.1 of the OEB Filing Guidelines, period-over-period changes under 10 per cent are not explained.

3.0 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR AND TEST PERIOD

Exhibit F1-T2-S2 Table 1 sets out the Hydroelectric Central Support Groups OM&A budgets by organizational or functional area for the bridge year and test period. These costs are allocated to the Niagara Plant Group and R.H. Saunders, using the methodology described in Ex. F1-T2-S1. Table 1 does not include the corporate allocations, which are discussed in Ex. F3-T1-S1.

Exhibit F1-T2-S2 Table 2c identifies the Hydroelectric base OM&A costs for the Niagara Plant Group for the bridge year and test period. It includes the portion of Hydroelectric Central Support Group OM&A expenses allocated to the Niagara Plant Group for the same period. It does not include the corporate allocations which are discussed in Ex. F3-T1-S1.

Exhibit F1-T2-S2 Table 3c sets out the Hydroelectric base OM&A costs for R.H. Saunders for the bridge year and test period. It includes a base OM&A allocation from the Ottawa - St. Lawrence Plant Group (“OSPG”) support organizations and from the Hydroelectric Central Support Groups as per the methodology described in Ex. F1-T2-S1. It does not include the corporate allocations which are discussed in Ex. F3-T1-S1.
3.1 Period-over-Period Changes – Test Period

2012 Plan versus 2011 Plan

Cost changes from 2011 to 2012 for allocations from the Hydroelectric Central Support Groups, and R.H. Saunders, including allocations from the OSPG support organizations are under 10 per cent.

Administration costs for the Niagara Plant Group are planned to decrease by $6.9M from 2011 to 2012 due to the conclusion of the Niagara Bridge Divestiture Program as discussed in Ex. F1-T2-S1, section 3.0. Year-over-year variability in the Divestiture Program is due to changes in the number and size of the bridges dealt with in any given year. Cost changes in Niagara Plant Group operations and maintenance are less than 10 per cent.

2011 Plan versus 2010 Budget

Cost changes from 2010 to 2011 for allocations from the Hydroelectric Central Support Groups, and R.H. Saunders, including allocations from the OSPG support organizations are under 10 per cent.

Niagara Plant Group administration costs are forecast to increase by $5.1M in 2011 to $11.4M compared to the 2010 budget of $6.3M. The change is due to the Niagara Bridge Divestiture Program which increases from $1.8M in 2010 to $6.9M in 2011. Cost changes in operations and maintenance are less than 10 per cent.

3.2 Period-over-Period Changes – Bridge Year

2010 Budget versus 2009 Actual

The $3.1M increase in the amount of Hydroelectric Central Support Groups costs allocated in 2010 as compared to 2009 is due to increases in the following costs:

- New Geographic Information System (“GIS”) dam safety mapping and aerial photography costs and the addition of a GIS program coordinator in 2010. The GIS costs are included in the Engineering Division budget.

- Addition of engineering and water resources trainees to address demographic issues.
Staffing additions in Engineering Services and other central support groups to address additional work programs (e.g., additional procurement requirements).

The addition of a drafting specialist in the Engineering Division to perform specialized drafting governance and oversight activities. This service was previously provided by the Thermal Business Unit, but the position is being eliminated in 2010 due to planned coal station closures.

Increased work and support associated with Hydroelectric Development including support for the Niagara Tunnel Project, and concept phase work on the potential Lake Gibson Development and the potential expansion of the Pump Generating Station (“PGS”).

Unused contingency in 2009 held by Executive Vice President (“EVP”) – Hydroelectric for unforeseen critical work for the regulated assets.

Year-over-year labour cost escalation.

Niagara Plant Group
Administration costs in 2010 are expected to be $2.0M lower than the 2009 actual costs. The Niagara Bridge Divestiture Program decreases from $4.0M in 2009 to $1.8M in the 2010 budget. Administrative costs for moving and training are expected to increase by $0.2M. Changes in costs from 2009 to 2010 for operations and maintenance are under 10 per cent.

R.H. Saunders Generating Station
For R.H. Saunders, base OM&A spending is budgeted to be $0.7M lower in 2010 when compared to the 2009 actual of $12.2M. The changes in operations, maintenance, and allocated OSPG common support costs are less than 10 per cent.

4.0 PERIOD-OVER-PERIOD CHANGES – HISTORICAL PERIOD
Exhibit F1-T2-S2 Table 1 presents the base OM&A costs for the Hydroelectric Central Support Groups that are allocated to the regulated facilities for the historical period.

Exhibit F1-T2-S2 Tables 2a and 2b present the base OM&A for the Niagara Plant Group for the historical period and includes the base OM&A costs allocated from the Hydroelectric Central Support Groups.
Exhibit F1-T2-S2 Tables 3a and 3b present the base OM&A for R.H. Saunders for the historical period and includes the allocated base OM&A costs from the Ottawa - St. Lawrence Plant Group Central Support Departments and the Hydroelectric Central Support Groups.

2009 Actual versus 2009 Budget
Hydroelectric Central Support Groups
The central support groups allocated costs were $1.7M or 23 per cent under budget in 2009 due to:
- Higher than planned attrition and unfilled vacancies across the central support groups (resulting in lower labour costs).
- Reduced allocations from Hydroelectric Development due to delays in concept phase work (e.g., Lake Gibson).
- Unused contingency in 2009 held by EVP – Hydroelectric for unforeseen critical work for the regulated assets.
- Lower than planned costs for implementation of the North American Electric Reliability Corporation (“NERC”) Cyber Security Project.
- Reductions in the use of engineering consultants and other consultants (e.g., aboriginal relations consultant).
- Reductions in travel costs and discretionary expenditures.

Niagara Plant Group
The Niagara Plant Group Administration spending in 2009 was $3.6M over budget. In 2009, an additional $4.0M in costs were incurred for the Niagara Bridge Divestiture Program. Further additional costs of $0.9M were related to increased activity for environmental, dam safety, and public safety programs, $0.2M for moving and Training Costs, and $0.5M for assessment work on projects. These costs have been offset by a reduction in labour burdens of $0.2M and an overall reduction in labour costs due to staff vacancies of $1.8M. Maintenance and operation cost variances were under 10 per cent.
R.H. Saunders Generating Station

R.H. Saunders OM&A cost variances, including allocated OSPG common support costs, were under 10 per cent for 2009.

2009 Actual versus 2008 Actual

Hydroelectric Central Support Group

Cost changes from 2008 to 2009 for allocations from the Hydroelectric Central Support Groups, were under 10 per cent.

Niagara Plant Group

Operations costs in 2009 were $0.7M higher than 2008. This was due to a staff increase in hydroelectric operator trades trainees, and small increases in external purchased services and other costs. Administration costs increased by $4.1M due to the additional costs incurred for the Niagara Bridge Divestiture Program, and additional moving and training costs, offset by labour reductions due to delays in filling vacancies. Changes in maintenance costs were under 10 per cent.

R.H. Saunders Generating Station

R.H. Saunders direct OM&A spending in 2008 was $6.9M as compared to $12.2M in 2009. Excluding an extraordinary credit of ($5.2M) in 2008 related to a legal settlement, base spending remained essentially the same in the two years. Excluding the settlement credit, the remaining maintenance, operations, administration, and allocated OSPG support cost changes were under 10 per cent.

2008 Actual versus 2008 Budget

Hydroelectric Central Support Groups

Actual 2008 allocated costs were $1.3M under budget due to lower external purchased services expenditures for the NERC Cyber Security project, and delays in filling staff vacancies across the central support groups, especially in Engineering and Hydroelectric Development. The EVP - Hydroelectric contingency was also not required, saving about $0.3M.
Niagara Plant Group

Niagara Plant Group maintenance costs in 2008 were $4.4M higher than the budget. The additional spending was mainly incurred on certain one-time maintenance activities. With this work, the plant group addressed many issues related to the condition of its facilities and public safety concerns. The additional maintenance activities included several facility concrete repairs, overhauls of governor pumps at Sir Adam Beck PGS, replacement of lights and heaters at Sir Adam Beck II headworks for safety, Sir Adam Beck II intake guardrail repairs for public safety, Sir Adam Beck II overhead screen door replacement for safety, upgrades to elevators to increase reliability, repairs to the DeCew Falls I roof access ladder and platform, DeCew Falls II head works window replacements, fence upgrades at the lilac gardens for public safety, International Control Dam maintenance building HVAC replacement. In all, over 110 additional maintenance activities were undertaken in 2008, some of which had been planned for 2009. Due to the deferral of several OM&A projects in 2008, plant group staff was redeployed to perform maintenance work. Operations and administration cost variances were under 10 per cent.

R.H. Saunders Generating Station

This station’s total base OM&A spending in 2008 was $6.9M. The budget level was $11.7M. Excluding an extraordinary credit of ($5.2M) in 2008 related to a legal settlement, other operating, maintenance, administration, and allocated OSPG support cost changes were under 10 per cent.

2008 Actual versus 2007 Actual

Hydroelectric Central Support Groups

Costs allocated from central support groups for 2008 were $1.2M higher than the costs in 2007 due to a number of factors:

- The addition of $0.5M in 2008 for definition phase work and implementation associated with the NERC Cyber Security standards. OPG was required to comply with these standards by the end of 2009.
- Under-spending in 2007 by all central support groups due to continuing attrition and delays in hiring ($0.9M). Several projects were deferred from 2007 to subsequent years.
due to engineering staff shortfalls. An engineer-in-training program was initiated in 2007 to address existing staffing shortfalls and to supplement existing engineers expected to retire during 2008 - 2012. This program will continue through to 2011 to mitigate the impact of demographics.

- Addition of support staff to assist in activities associated with new internal controls, audit activities, regulatory activities and other due diligence activities ($0.4 M).
- Transfer of the EVP - Hydroelectric salary from a central corporate payroll cost centre to the hydroelectric cost centre ($0.2 M).
- Increases in labour rates and payroll burdens.

Niagara Plant Group

Maintenance costs for 2008 were higher than in 2007 by $2.9M. As described above in the 2008 actual versus budget discussion, an increased number of high priority base maintenance items were undertaken in 2008. The additional maintenance work was primarily aimed at safety issues such as fencing, and also to address the condition of Niagara Plant Group facilities.

Administration costs for 2008 were $2.0M higher than the 2007 actual cost of $2.2M. This cost increase was a result of lower than average administration costs for 2007, due to a one-time credit of $1.6M received from Hydro One for OPG’s operations and maintenance support of Hydro One equipment located inside the Sir Adam Beck I powerhouse for the period dating back to the demerger of Ontario Hydro in 1999. In addition, administration spending increased approximately $0.5M as the result of hiring three additional staff combined with changes to labour rates and payroll burdens. Cost changes in operations are less than 10 per cent.

R.H. Saunders Generating Station

Excluding the extraordinary expense of $27.2M in 2007 and the extraordinary credit of ($5.2M) in 2008, which both related to a legal settlement, total OM&A spending at R.H. Saunders was $1.9M higher in 2008 than 2007 ($12.1M versus $10.2M).
Maintenance expenses for 2008 are $1.8M higher than the actual expenditures in 2007, but only $0.3M higher than the 2007 budget amount. The reasons for the lower actual maintenance spending in 2007, contributing to the relative increase for 2008, are outlined in the 2007 actual versus budget discussion below. Cost changes in operations are less than 10 per cent.

Ottawa/St. Lawrence Plant Group common costs decreased by $0.3M in 2008 as compared to the 2007 actual allocated costs. This is a result of the restructuring discussed in Ex. F1-T2-S1, section 3.3.

2007 Actual versus 2007 Budget
Hydroelectric Central Support Groups

Costs allocated from central support groups for 2007 were $1.4M under budget due to the following factors:
- Staffing under-variance due to staff departures and slower hiring ($0.5M)
- The EVP - Hydroelectric contingency was not required in 2007 ($0.3M)
- Lower consulting costs ($0.2M)
- Labour rate under-variance due to a difference between the demographic plan assumptions and the actual demographics (i.e., actual staff mix starting to get younger, thereby reducing the average rate)

Niagara Plant Group

Total base OM&A spending in 2007 was $0.4M less than budget ($34.8M versus the budget of $35.2M). Spending in operations was $2.0M below plan as a result of contingency funds budgeted in operations being transferred to maintenance activities. Additional maintenance activities resulted in approximately $3.7M in additional costs. These activities included unplanned maintenance activities necessary to maintain generators in operation, health and safety improvements, and additional field service work for snow removal, fence repair, and public safety signage. As described in Ex. F1-T2-S1, the Production Department is responsible for both the operation and maintenance of the Niagara Plant Group facilities. Its
budget includes a contingency to address unforeseen events that could impact the
performance of the Niagara generating stations.

Administration costs were approximately $2.1M below budget mainly due to the one-time
cost recovery from Hydro One of $1.6M described above in the 2008 Plan versus 2007
Actual discussion. In addition, a cost transfer from administration to maintenance of
approximately $0.4M resulted from the shifting of project staff from the Projects Department
to the Production Department. The transfer was a result of using contract labour for the Sir
Adam Beck I G7 Frequency Conversion project. The administration budget held funding for
the project staff to cover time not spent on projects such as training, and health and safety
meetings.

R.H. Saunders Generating Station

Total base OM&A spending in 2007 was $37.4M versus the budget of $11.7M. This was the
result of an extraordinary item ($27.2M) related to the settlement of a past grievance with a
First Nation. Excluding that expense, total base OM&A spending in 2007 was $1.5M below
budget.

Maintenance expenses were $1.5M below plan as a result of the following changes cost
containment for OPG’s portion of the American eel studies and initiatives ($0.7M), lower joint
works expenses than estimated from the New York Power Authority ($0.3M), staff vacancies,
shifting of maintenance staff to execute projects, and the deferral of some community
initiatives and activities.

Cost variances for R.H. Saunders operations and Ottawa/St. Lawrence Plant Group common
cost allocations were less than 10 per cent.