

## ASSET SERVICE FEES

### 1.0 PURPOSE

This evidence describes OPG's service fee methodology and explains the calculation of the proposed service fees for the test period.

### 2.0 BACKGROUND

Approximately 99 per cent of OPG's in-service fixed assets are directly associated with specific generation facilities. The remaining assets are either directly associated with a business unit, or are common assets used by both regulated and unregulated generation facilities.

The assets held centrally are not included in rate base and the depreciation and amortization expense in this rate submission does not include any depreciation or amortization related to these assets. Instead, the nuclear facilities (as well as regulated hydroelectric and unregulated facilities) are charged a service fee for the use of these assets, which is included in the nuclear OM&A expenses.

The service fee methodology used in this Application is the same as that accepted by the OEB in EB-2013-0321, EB-2010-0008 and EB-2007-0905. Exhibit F3-2-1 Table 2 presents asset service fees for 2013 to 2021.

### 3.0 ASSET SERVICE FEES

Asset service fees are computed in a cost-based manner. The costs included in the computation of the service fees are depreciation expense, certain operating costs, property taxes, and a tax-adjusted return earned on these assets.

The nuclear facilities are charged a service fee for the use of the following assets, which are further discussed below:

- Kipling Site Building Complex (located in Toronto, Ontario)
- Wesleyville (located in Durham County, Ontario)

- Certain shared IT and Energy Markets Assets (together “IT Assets”)

The charts below provide nuclear service fee amounts for the years 2017 to 2021.

**Chart 1**  
**Nuclear Asset Service Fee Amounts – 2017-2021**

\$M	Kipling/ Wesleyville	IT Assets	Total
2017	3.3	24.6	27.9
2018	3.3	24.6	27.9
2019	3.4	24.9	28.3
2020	3.5	19.4	22.9
2021	3.5	17.2	20.7

**Kipling/Wesleyville**

OPG’s Kipling and Wesleyville sites are partially used by personnel from the regulated operations and support services that support them. The service fee for the use of the Kipling and Wesleyville sites is computed based on an allocation of depreciation expense, operating costs related to maintaining the building, property taxes, and a tax-adjusted return on the capital invested in these assets. The cost allocation is based on the principles of OPG’s support services cost allocation methodology discussed in Ex. F3-1-1. Depreciation expense and property tax expense, as per OPG’s budget for the year, are apportioned based on the relative square footage used by the regulated operations, including an amount for the support services supporting them. As per the cost allocation methodology, operating costs incurred by Real Estate to maintain the building are apportioned based on the relative square footage used by the regulated operations, including an amount for support services supporting them.

The return on capital amounts are computed using after-tax rates of return which are generally consistent with the proposed weighted average cost of capital rates for the

1 regulated operations as per Exhibit C. The return on equity component is grossed-up by  
 2 OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is  
 3 applied to the average budgeted net book value of each building for the year, and then  
 4 apportioned to each of the regulated facilities using relative square footage which is  
 5 consistent with the allocation basis used to determine the depreciation expense in the Asset  
 6 Service Fee.

7  
 8 The components used to establish the projected nuclear service fee for Kipling and  
 9 Wesleyville for the years 2017 to 2021, respectively, are presented below:

10  
 11 **Chart 2**  
 12 **Components of Nuclear Asset Service Fee for Kipling/Wesleyville – 2017-2021**

<b>\$M</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Depreciation Expense	0.5	0.6	0.7	0.7	0.8
Property Tax	0.4	0.4	0.4	0.4	0.5
Operating Costs	0.9	0.9	0.9	0.9	0.8
Tax-adjusted Return	1.5	1.4	1.4	1.5	1.4
<b>Total</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.5</b>

13  
 14 **IT Assets**

15 IT assets include computer systems and applications used throughout OPG, such as SAP  
 16 and other enterprise resource planning systems, document management and archiving  
 17 systems, computer network hardware and the remote access system, as well as, information  
 18 technology systems, applications and infrastructure related to generation portfolio  
 19 management, trading and origination activities, and related administrative functions such as  
 20 transaction settlements.

21  
 22 These assets are used by personnel from the regulated operations and the support services  
 23 that support them. The service fee for the use of IT assets is computed based on an

1 appropriate portion of depreciation expense and a tax-adjusted return. The portion of the  
2 costs included in the service fee is based on the principles of OPG's cost allocation  
3 methodology discussed in Ex. F3-1-1. For the majority of IT assets, depreciation expense is  
4 apportioned using the relative number of business workstations used by the regulated  
5 operations and the portion of support services that support them.

6  
7 The return on capital amounts are computed using after-tax rates of return, which are  
8 generally consistent with the proposed weighted average cost of capital rates for the  
9 regulated operations as per Exhibit C. The return on equity component is grossed-up by  
10 OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is  
11 applied to the average budgeted net book value of the assets for the year apportioned using  
12 the relative number of business workstations used by the regulated facilities and the portion  
13 of support services that support them. This is consistent with the allocation basis used to  
14 determine depreciation expense portion of the Asset Service Fee.

15  
16 The components used to establish the service fee for IT Assets for the years 2017 to 2021,  
17 respectively, are presented below:

18  
19 **Chart 3**

20 **Components of Nuclear Asset Service Fee for IT Assets – 2017-2021**

<b>\$M</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Depreciation Expense	20.9	22.0	23.1	18.1	16.0
Tax-adjusted Return	3.7	2.6	1.8	1.3	1.2
<b>Total</b>	<b>24.6</b>	<b>24.6</b>	<b>24.9</b>	<b>19.4</b>	<b>17.2</b>

21  
22  
23 Shareholder Declaration and Resolution to Sell the Company's Head Office – 700 University  
24 Avenue.

25 In December 2015, OPG received a Shareholder Declaration and Resolution that requires  
26 the Company to sell its head office premises in Toronto, Ontario. The Shareholder

1 Resolution also requires OPG to transfer to the Province the portion of the proceeds from the  
2 sale equal to the after-tax accounting gain on sale, net of transaction costs.  
3  
4 As a result of this directive and consistent with OPG's approved business plan, the budgeted  
5 service fee for 700 University Avenue has been discontinued, effective April 1, 2016. This  
6 service fee has been replaced by budgeted lease payments, which are reflected in real  
7 estate costs in Ex. F3-1-1 Table 7, effective April 1, 2016.

Numbers may not add due to rounding.

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EB-2016-0152  
Exhibit F3  
Tab 2  
Schedule 1  
Table 1

Table 1  
Asset Service Fees - Regulated Hydroelectric (\$M)

**Intentionally left blank (See Ex. A1-3-1)**

Numbers may not add due to rounding.

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Exhibit F3  
Tab 2  
Schedule 1  
Table 2

Table 2  
Asset Service Fees - Nuclear (\$M)

Line No.	Business Unit	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Nuclear	22.7	23.3	32.9	28.4	27.9	27.9	28.3	22.9	20.7