

## 1                    **ALLOCATION OF SUPPORT SERVICES COSTS**

### 2 3    **1.0    PURPOSE**

4    The purpose of this evidence is to describe the Support Services costs assigned and  
5    allocated to the nuclear and hydroelectric businesses, as well as the underpinning cost  
6    allocation methodology.

### 7 8    **2.0    OVERVIEW**

9    OPG is seeking approval of a revenue requirement for the previously regulated hydroelectric,  
10   newly regulated hydroelectric, and nuclear businesses that includes the costs assigned and  
11   allocated to them from OPG's Support Services groups.

12  
13   The revenue requirement for the previously regulated hydroelectric business includes  
14   \$29.8M and \$26.9M of assigned and allocated Support Services costs in 2014 and 2015  
15   respectively, as presented in Ex. F3-1-1 Table 2. The revenue requirement for the newly  
16   regulated hydroelectric business includes \$42.1M and \$39.6M of assigned and allocated  
17   Support Services costs in 2014 and 2015 respectively as present in Ex. F3-1-1 Table 2. The  
18   revenue requirement for the nuclear business unit includes \$433.9M and \$417.4M of  
19   assigned and allocated Support Services costs in 2014 and 2015 respectively, as presented  
20   in Ex. F3-1-1 Table 3.

21  
22   The overall level of Support Services costs allocated to the regulated businesses decrease  
23   over the bridge year and test period.

24  
25   OPG is structured such that certain support services groups provide services and incur costs  
26   in support of the nuclear and hydroelectric businesses. Support Services groups include  
27   Business and Administrative Services, Finance, People & Culture, Commercial Operations &  
28   Environment, and Corporate Centre. A description of the Support Services groups is  
29   provided in section 3.

30

In 2012, as part of the Business Transformation (BT) initiative, OPG implemented a centre-led organization. Adopting a centre-led organization allows OPG to bring a consistent approach to functional practices such as procurement, records and facility management, financial reporting and training. This approach allows OPG to make use of resources more efficiency and provides critical mass of functional skill set to respond to changing demands and business needs. As a result of BT in 2012, 1,064 staff and \$198.0M of OM&A was transferred from Nuclear Operations and Nuclear Projects to Support Services. In addition, 61 staff and \$14.6M in OM&A was transferred from the Hydro-Thermal business to Support Services in 2012. Refer to Ex. A4-1-1 for list of BT related organizational changes.

The tables below reflect the impact on the 2012 Board Approved values due to the BT transfers from the nuclear and hydroelectric businesses to the Support Services groups.

Restated for Impact of Business Transformation 2012 (\$M)\*  
Nuclear

Corporate Group	Total 2012 OEB Board Approved	Business Transformation Transfers In from Nuclear	(a)+(b) 2012 Board Restated Total	(e)-(c) Change	2012 Actual
	(a)	(b)	(c)	(d)	(e)
<b>Business and Administrative Service</b>	144.2	119.7	263.9	(26.7)	237.2
<b>Finance</b>	36.0	14.6	50.6	(4.4)	46.2
<b>People and Culture</b>	37.6	58.8	96.4	(6.4)	90.0
<b>Commercial Operations and Env.</b>	20.6	4.9	25.5	(12.8)	12.7
<b>Corporate Centre</b>	13.9	-	13.9	8.4	22.3
<b>Total</b>	252.3	198.0	450.3	(41.9)	408.4

\* Excludes transfers between Corporate Groups

Restated for Impact of Business Transformation 2012 (\$M)\*  
Regulated Hydroelectric - Niagara Plant Group and Saunders GS

Corporate Group	Total 2012 OEB Board Approved	Business Transformation Transfers In from Regulated Hydroelectric	(a)+(b) 2012 Board Restated Total	(e)-(c) Change	2012 Actual
	(a)	(b)	(c)	(d)	(e)
Business and Administrative Service	9.5	0.6	10.1	(1.8)	8.3
Finance	3.7	-	3.7	(0.5)	3.2
People and Culture	2.3	-	2.3	1.0	3.3
Commercial Operations and Env.	8.7	0.9	9.6	(4.1)	5.5
Corporate Centre	2.1	1.2	3.3	0.9	4.2
<b>Total</b>	<b>26.3</b>	<b>2.7</b>	<b>29.0</b>	<b>(4.5)</b>	<b>24.5</b>

\*Excludes transfers within Corporate Groups.

In OPG's cost allocation methodology (section 4), Support Services costs are either directly assigned or allocated to the regulated businesses. OPG directly assigns costs that are directly related to a business unit. For example, Support Services employees working at, and solely in support of, a business unit would be directly assigned to that business unit. Support Services costs that are associated with services utilized by more than one business unit are allocated based on appropriate cost drivers, which reflect cost causation or benefits received by the business unit.

OPG's cost allocation methodology has been reviewed in 2013 by independent cost allocation experts HSG Group Inc. HSG concluded that the methodology to assign and allocate costs meets best practices and is consistent with cost allocation precedents established by the OEB, and that the allocated costs meet the requirements of the OEB's "3-prong test". The methodology is consistent with the methodology that was reviewed and accepted in the EB-2010-0008 Decision with Reasons (page 94).

### 3.0 SUPPORT SERVICES COSTS – TOTAL OM&A

Exhibit F3-1-1 Table 1 summarizes OPG's total Support Services OM&A before direct assignment and allocation to the businesses. Fluctuations in these costs over the period 2010 - 2015 are discussed below, followed by a description of the services provided by the groups.

Support Services costs increase over the 2011 - 2013 periods mainly due to the implementation of a centre-led organization driven by the Business Transformation initiative. Support Services costs decrease over the 2013 - 2015 periods mainly due to Support Services groups leveraging attrition by not replacing staff that retire, implementing organizational changes to take advantage of economies of scale by consolidating staff that perform similar work, streamlining processes, and eliminating lower value work. In addition, the execution of the Enterprise System Consolidation Project in Business and Administrative Services will enable streamlining/ standardization of processes in other Support Services groups and reduce IT costs.

Exhibit F3-1-1 Tables 2 and 3 present the Support Services costs allocated to regulated hydroelectric, newly regulated hydroelectric, and nuclear over the historical, bridge, and test years.

### **3.1 Business and Administrative Services ("BAS")**

Business and Administrative Services ("BAS") manages the following functions: Information Technology, Real Estate, and Supply Chain.

#### **Information Technology ("IT")**

The IT group oversees OPG's information management and information technology needs. IT is accountable for the strategic planning, management and operations of all business and technical information systems, but does not support process computers that control plant systems and operations. IT also administers OPG's information management and governing documents framework.

Information technology services are provided through a combination of internal staff and an outsource service contract with New Horizon System Solutions ("NHSS"), owned by Capgemini. NHSS delivers application and infrastructure management services across OPG. OPG IT provides application management services to Commercial Operations due to the

1 commercially sensitive nature of the applications, as well as specific infrastructure and  
2 application management services to staff at the hydroelectric sites.

3  
4 Exhibit F3-1-1 Tables 6 and 7 present BAS costs that are allocated to hydroelectric and  
5 nuclear, respectively, over the historical, bridge, and test years. The costs related to NHSS  
6 services, which include Infrastructure Management, Application Maintenance, Data Centre  
7 Services, and Other Services, are explained in more detail below.

8  
9 Infrastructure Management costs refer to volume-based costs for NHSS services such as  
10 network management for both data and voice, end-user services such as service desk  
11 management and desktop support, IT security, disaster recovery and business continuity  
12 planning.

13  
14 Application Maintenance costs cover NHSS services for providing day-to-day support for  
15 OPG's business applications including: application maintenance and support, applications  
16 operations and monitoring, application upgrades, database and middleware support. IT also  
17 works closely with application owners to plan for patches and technical upgrades, life cycle  
18 planning, release management, testing and commissioning and overall demand  
19 management.

20  
21 Data Centre Service costs are NHSS services related to the management of the mainframe  
22 and servers, storage and backup system, capacity planning and performance tuning, system  
23 operations and monitoring and IT facilities.

24  
25 The Other Services, referred to in the tables, include NHSS fixed costs for services such as  
26 Account Management (contract governance), Service Management (incident, problem, asset  
27 and configuration management as well as operational and service level reporting),  
28 Commercial Operations Systems operations, monitoring and support.

The IT Support Costs identified in the tables refer to the cost of the internal IT support groups providing IT Service and Project Portfolio management, IT Enterprise Strategy and Architecture and IT Programming and Performance Management.

IT continues to use the benchmarking data services of Electric Utility Cost Group (“EUCG”), a non-profit association with membership from North America and international utilities.

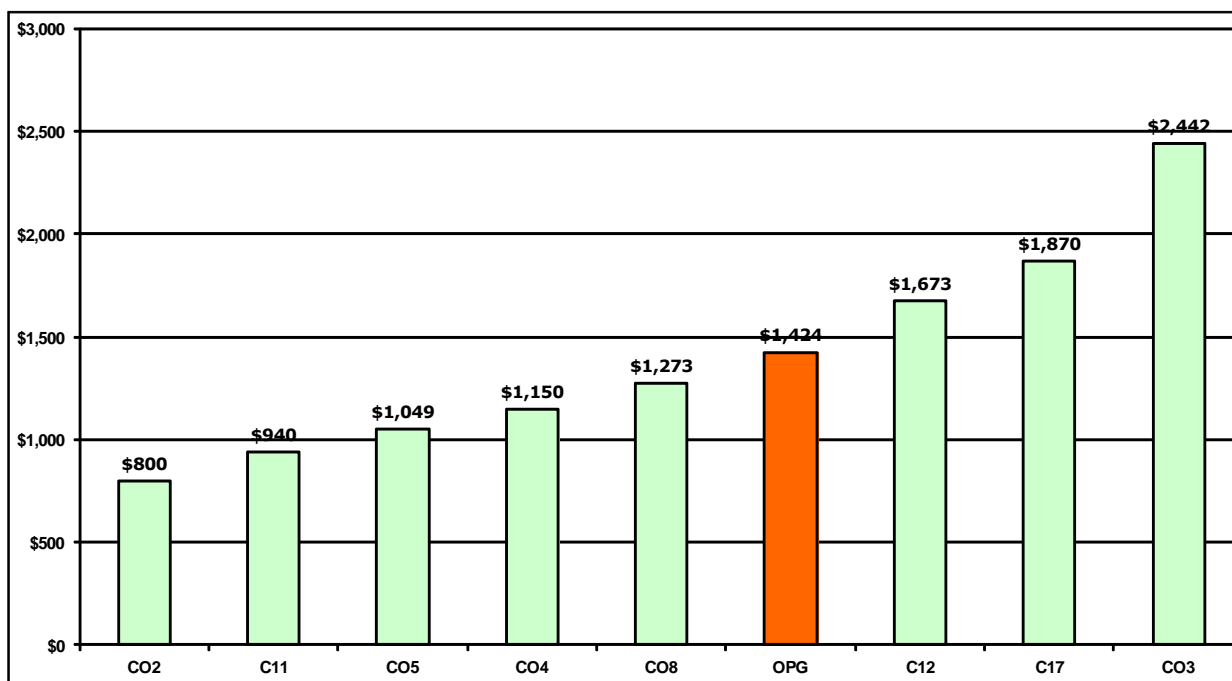
2011 EUCG data was used by IT to compare OPG against ten North America electric utilities’ IT spending per employee and IT spending per GWh. The 2011 results for the two metrics are as follows:

**2011 EUCG Comparator Group Data**

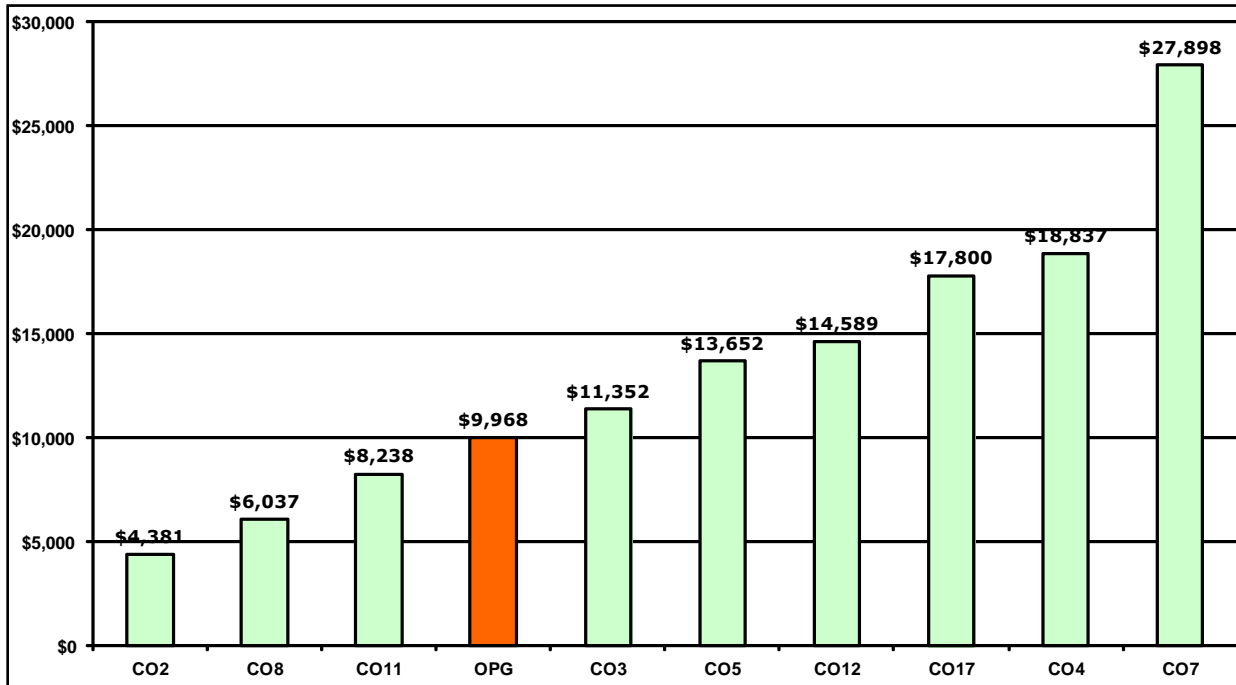
<b>Metric</b>	<b>OPG</b>	<b>Q1</b>	<b>Median Q2</b>	<b>Q3</b>	<b>Average</b>
IT Spending (k\$)/Employee	\$9.9	8.2<\$	13.6<\$	17.8<\$	\$13.6
IT Spending (k\$)/GWh	\$1.4	1.0<\$	1.2<\$	1.8<\$	\$1.4

The 2011 results indicate the OPG’s IT costs were within the second quartile for IT spending per employee and within the third quartile for IT spending per GWh. The IT group has committed to further cost reductions over the 2013 - 2015 business planning period through a series of cost saving initiatives by improving demand management, leveraging existing applications, storage reduction and re-tiering, data centre and server optimization, increased standardization and simplification of the information technology environments, and negotiated savings in software maintenance contracts and outsourced services.

2011 IT Spend Per GWH (CDN\$) – OPG shown in red



**2011 IT Spend Per Employee (CDN\$) – OPG shown in red**



### Real Estate

The Real Estate group provides centralized support services through three departments: Real Estate Services, Facilities and Projects, and Business Services.

OM&A costs are tightly controlled through service area expertise, demand management, effective space and service utilization, economies of scale (as a centralized service provider), outsourcing (to the extent permitted under collective agreements), competitive procurement and staff reductions.

### Real Estate Services

On a corporate-wide basis, Real Estate Services acquires, manages and disposes of real estate rights and interests; manages all commercial leases; consults on municipal planning issues; maintains real estate and property documents; and develops and implements accommodation strategies to meet space requirements outside the generating stations.



1 Facility and Projects

2 Facility and Projects provides property management services, space planning, furniture and  
3 facility project management; and company-wide fleet administration. In addition, emergency  
4 response services are provided for all facilities under its control, along with generating station  
5 support as requested.

6  
7 Business Services

8 Business Services provides a suite of administrative services to OPG clients including:  
9 records management and storage; document processing; graphics and printing services;  
10 mail and courier service, audio/visual; office equipment and supplies; library services; Real  
11 Estate and Services call centre; and administrative support for staff located at 700 University  
12 Avenue, Pickering, and Darlington, as well as other nuclear groups located at certain  
13 facilities in Durham Region.

14  
15 Real Estate OM&A consists of costs to support these services, as well as costs of managing  
16 common real estate assets (e.g., OPG Head Office at 700 University Avenue). The  
17 generation businesses are charged an asset service fee related to the use of these common  
18 assets (Ex. F3-2-1).

19  
20 Exhibit F3-1-1 Tables 6 and 7 summarize Real Estate costs allocated to hydroelectric and  
21 nuclear over the historical, bridge, and test years.

22  
23 Supply Chain

24 The Supply Chain group is responsible for procuring services and materials and managing  
25 contracts for OPG's Nuclear, Hydro-Thermal, and Support Services groups. Supply Chain  
26 focuses on maintaining integrity in the procurement process, delivering value for money and  
27 protecting OPG and its assets. In addition, Supply Chain performs market analysis and  
28 develops long term sourcing strategies for the supply of uranium.

29  
30 Exhibit F3-1-1 Tables 6 and 7 summarizes Supply Chain costs allocated to hydroelectric and  
31 nuclear over the historical, bridge, and test years.

## **3.2 Finance**

Finance provides strategic advice, services, and support in the areas of controllership, investment planning, assurance (internal audit and nuclear oversight), treasury, and fund management. On behalf of the company, it prepares financial statements and maintains accounting policies and procedures in accordance with U.S. Generally Accepted Accounting Principles.

### Controllership

Controllership provides services directly to Nuclear, Hydroelectric, Thermal and Support Services groups. Staff are directly assigned to the business units and are located at the production sites they support. Controllership also provides shared financial services (e.g. accounting, processing of billings, accounts payables, business expenses, etc.), business planning and reporting, and income and commodity tax services.

### Investment Planning

Investment Planning develops and evaluates major projects and strategic initiatives, develops guidelines for and provides advice on business cases and lifecycle plans, develops models combining engineering and financial aspects for evaluation of business decisions, develops and prepares data, market analysis, forecasts and modeling for valuing capital investments, designs and conducts risk assessments involving system / market, technical and financial considerations, and provides property tax services for all property owned by OPG.

### Assurance

The Assurance group's responsibility encompasses the examination and evaluation of the adequacy and effectiveness of OPG's governance, systems of internal control and quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. Internal Audit provides independent, objective assurance of the organization's operations; evaluates the effectiveness of governance and controls; and maintains a strategic audit plan which includes key risk audits, mandatory audits, cyclical audits, major project audits, contract audits and other audits and reviews. Nuclear Oversight

1 provides assurance that the Nuclear Management System (a condition of OPG's operating  
2 license) is effectively implemented in accordance with OPG's Nuclear Charter.

3  
4 Treasury

5 The Treasury group is responsible for cash management, financial exposure management  
6 and capital structure management. The Risk Management & Insurance department is  
7 responsible for OPG's insurance program, claims processing and contract reviews.

8  
9 Fund Management

10 Fund Management has the responsibility for management and oversight of OPG's Nuclear  
11 Used Fuel Fund, Nuclear Decommissioning Fund, and OPG's Pension Fund. The investment  
12 management of these three funds has been outsourced to third party investment managers.  
13 Management and oversight of the three funds includes recommending the strategic asset  
14 mix of the funds, monitoring compliance with legislation and agreements, selection of  
15 investment managers, carrying out due diligence audits, and providing monitoring and  
16 oversight of the fund activities.

17  
18 CFO Office

19 The CFO Office manages the Finance Business Unit.

20  
21 Exhibit F3-1-1 Tables 4 and 5 summarize Finance costs allocated to hydroelectric and  
22 nuclear over the historical, bridge and test years.

23  
24 Finance Benchmarking

25 Finance implemented a standardized platform for financial reporting and forecasting in 2010  
26 based on the 2009 benchmarking evidence prepared by the Hackett Group. In the EB-2010-  
27 0008 Decision with Reasons (p.94), the Board reviewed and accepted this evidence. The  
28 Hackett report provided several areas of focus and recommendations which include ongoing  
29 standardized reporting, business planning, forecasting and budgeting. A number of changes,  
30 reflective of best practices in budgeting requirements, were implemented in 2012. These  
31 changes include a shorter time horizon for detailed information submission, modified

1 budgeting practices to ensure financial targets are held at an appropriate level of detail in the  
2 organization, and earlier submission and review of Support Services groups.

3  
4 As part of the BT initiative, Finance will continue to pursue cost efficiencies by investing in a  
5 new standardized management reporting system and leveraging a shared service delivery  
6 model by centralizing or consolidating similar transactional based activities.

### 7 8 **3.3 People & Culture**

9 People & Culture support the organization in effectively managing and developing a highly  
10 skilled workforce to achieve its goals and objectives. It provides strategic advice, services  
11 and support in the areas of: talent management and staffing, human resource planning and  
12 reporting, labour relations, employee safety and wellness, compensation and benefits, ethics  
13 and code of business conduct, payroll services and generalist People & Culture services in  
14 the field. There are generalist People & Culture departments dedicated to the nuclear, hydro-  
15 thermal, and corporate business units, as well as specialist People & Culture departments  
16 that serve all of OPG.

#### 17 18 Total Compensation & Solutions Centre

19 Total Compensation & Solutions Centre is responsible for developing reward policy, strategy  
20 and programs including base pay, performance based incentives, benefit programs and  
21 recognition programs for OPG. In addition, two Employee Service Centres (ESC); one  
22 dedicated to Nuclear and one to Non-Nuclear groups, administer the processing of new  
23 employee hires, terminations, job changes, organization changes etc.

#### 24 25 Health, Safety, Employee & Labour Relations

26 Health & Safety provides oversight, management, monitoring and reporting on the  
27 implementation of the safety management system, and the disability management program  
28 and sick leave benefits. This group provides central services to business units, as well as  
29 station level services directly on site for Pickering and Darlington.

1 Employee & Labour Relations develops strategies and tactics for the management of OPG's  
2 unionized employees and supports the development of employee-related principles, policies  
3 and collective agreements. The Labour Relations department supports this service by  
4 providing resources and operational support to the development and implementation of  
5 labour relations strategies and the development of broader employee-related principles,  
6 policies and collective agreements.

7  
8 Business Partners Nuclear, Hydro/Thermal, Corporate

9 Business Partners Nuclear and Hydro/Thermal provide site-specific People & Culture  
10 services including staffing and redeployment, labour relations, employee relations,  
11 employment equity and diversity program co-ordination, human rights and harassment  
12 support, compensation and benefits advice, counseling, sick leave and disability  
13 management support, performance planning and reviews, development and succession  
14 planning, regulatory compliance, etc.

15  
16 Business Partners Corporate provides human resources leadership, support and expertise to  
17 groups in Support Services in the development and implementation of initiatives eg.  
18 transition and change management, employee engagement and achievement of targets,  
19 succession planning, performance management activities, and employee development plans.

20  
21 Talent Management & Business Change

22 Talent Management & Business Change provides long-range planning and the development  
23 and support of employee development and talent management programs to support  
24 business strategies and ensure the supply and development of employees across OPG.  
25 Talent Management & Business Change also provide support and functional services to the  
26 Support Services groups.

27  
28 Learning & Development

29 The Learning & Development group is responsible for developing and sustaining training  
30 programs in order to meet OPG's need for highly skilled and knowledgeable personnel  
31 required for safe, reliable operations and to support performance improvements. Fleet

Operations Training provides delivery and evaluation of Nuclear License Certification programs including CNSC interface, Nuclear Non-Licensed Operator Training, and Hydro/Thermal Operations Training. Fleet Support Services Training provides delivery of Chemistry Technician training, Engineering training, Radiation Protection training, Health & Safety (Conventional) training programs including legislative and compliance programs. Fleet Maintenance Training provides delivery of trades and technical training including Electrical and Control Maintenance, Protection and Control, Mechanical Maintenance, and Civil Maintenance programs. Fleet Simulators & CBT is responsible for the development and maintenance of Computer Based Training products and desk-top simulations for Nuclear generating stations as well as full scope simulators for Nuclear control rooms. The Other Training Programs department provides delivery of Management and Supervisory training, SAP/Asset Suite 7 training, scheduling of training events, training policies and procedures, training design and development services.

#### Senior Vice-President

The Senior Vice President's Office manages the People & Culture Business Unit.

Exhibit F3-1-1 Tables 8 and 9 summarize People & Culture costs allocated to hydroelectric and nuclear over the historical, bridge, and test years.

#### People & Culture Benchmarking

OPG continues to participate in a benchmarking group called the Electric Utility HR Metrics Group ("EU-HRMG"). This group benchmarks performance on a cross-section of HR metrics annually. A consistent definition of HR functions is benchmarked across 42 member utilities. This information is used to analyze performance and trends.

Highlights from the latest EU-HRMG benchmarking study completed in 2013 using 2012 data include the following metrics:

- HR Expense Factor: HR Expense Factor is total HR expenses divided by the number of Regular HR Employees, or the HR expense per HR professional. OPG's HR

Expense Factor in 2012 was \$172 k / HR Employee. This is below median for all benchmarked utilities (\$194 k) and between median (\$155 k) and bottom quartile (\$175 k) when compared to OPG's peer group of very large utilities (\$174.3 K).

- HR FTE/Employee Ratio: OPG's ratio improved modestly since 2009 with an improvement of about 2%, from 64 to 65. OPG's 2012 HR Employee Ratio of 65 is in the bottom quartile. When OPG completes the Business Transformation process and initiatives, improvements in the HR FTE/Employee ratio are anticipated.

### **3.4 Commercial Operations and Environment**

Commercial Operations and Environment includes Commercial Contracts, Environment, Regulatory Affairs, Electricity Sales & Trading, and Integrated Revenue Planning sections.

#### Commercial Contracts

Commercial Contracts includes Fuels, Commercial Services, and Bruce Lease Management departments. The Fuels department is responsible for the procurement and delivery of Fuel (excluding uranium), sales of By-products, acquisition of Emission Allowance and Credits, negotiation and contract management for generation and ancillary services with IESO and OPA. Commercial Services markets and manages a program for the sale of isotopes and heavy water products, and services for existing and future applications. Bruce Lease Management Office manages contracts with Bruce Power.

#### Environment

Environment provides oversight of OPG's environmental management and performance, provides advice and guidance to the Operating Units to minimize the environmental risk and impacts, and seeks opportunities for environmental leadership. The Environment Division supports OPG in a wide range of environmental subject areas including aquatic and terrestrial biology, environmental assessments, land, water and waste management, environmental approvals, environmental risk management, and legislative monitoring

#### Regulatory Affairs

Regulatory Affairs is responsible for OPG's interactions with economic regulators. These include the OEB, IESO, the National Energy Board and other Canadian and U.S. regulators that have an impact on OPG's operations. Regulatory Affairs provides regulatory intelligence, strategy, and advice and also manages regulatory interactions to obtain approvals and outcomes that allow OPG to accomplish its business goals.

#### Electricity & Sales Trading

The Electricity Sales & Trading group co-ordinates the offering of OPG's generation into the IESO market to maximize OPG's net revenues by integrating and optimizing the generation portfolio and trading activities. This includes outage planning and strategies to optimize production based on market signals; to manage generation risks; and to engage in interconnected market electricity trading.

#### Integrated Revenue Planning

Integrated Revenue Planning provides power market forecasts of OPG unit production, price, revenue, and gross profit margin for OPG units along with appropriate risk measures. This group includes Market Affairs which monitors, provides advice and analysis on potential changes to the market, responds to potential compliance and surveillance issues and provides support for OEB rate submissions.

### **3.5 Corporate Centre**

The corporate centre includes the Executive Office (Chairman, President and CEO offices), Corporate Executive Operations, Law, Corporate Relations and Communications, and Corporate Business Development & Enterprise Risk Management.

#### Executive Office

The Executive Office is responsible for the overall management and strategy of the company.

#### Corporate Executive Operations



1 The Corporate Executive Operations function supports OPG's Board of Directors and the  
2 Executive Office, and interfaces between the OPG Board, management and OPG's  
3 shareholder.

4  
5 Law

6 Law provides legal advice and services to support all business units across OPG, including  
7 support for various procurement activities and corporate and commercial matters. Law  
8 provides advice related to OPG's pension and nuclear funds; real estate; Bruce lease and  
9 related agreements and water resources; municipal approvals and land use planning; energy  
10 markets and regulatory matters, including the OEB payment amount application;  
11 environmental approvals and compliance; nuclear licensing; litigation; First Nations and Métis  
12 issues; freedom of information request; occupational health and safety compliance; and  
13 labour employment and privacy law.

14  
15 Corporate Relations and Communications

16 Corporate Relations and Communications supports all of OPG's Business Units by directing  
17 the planning and delivery of communications and issue management advice, guidance and  
18 services to support the Business Units' ongoing efforts to earn and maintain the public  
19 franchise to operate facilities in Ontario. This includes the development of communications  
20 and issue management strategies to improve OPG's relations with host communities, and  
21 further their understanding of the company as a safe, reliable, environmental responsible  
22 operator and steward of the Province's generating assets.

23  
24 Corporate Business Development & Enterprise Risk Management

25 Corporate Business Development is responsible for developing and maintaining an  
26 integrated corporate business development strategy to assess and recommend new  
27 business opportunities; establish and maintain an integrated portfolio-based generation and  
28 site asset strategy; and develop and implement external and internal partnerships in support  
29 of the corporate strategy. Corporate Business Development (CBD) explores the concept and  
30 definition of major hydroelectric and thermal generation development projects as well as

1 other business development initiatives. CBD also anticipates and develops strategies to deal  
2 with project opportunities and challenges.

3  
4 Enterprise Risk Management provides a framework that enables the organization to  
5 effectively identify, assess, monitor, and report on the key strategic, emerging, external,  
6 operational, financial, and transactional risks to the Corporation's objectives.

#### 7 8 **4.0 METHODS OF ALLOCATION**

9 The cost allocation methodology is the same as was previously evaluated and accepted by  
10 the OEB as part of EB-2010-0008 (page 94) and EB-2007-0905 (page 60). The cost  
11 allocation methodology uses two methods to distribute costs among the business units:  
12 direct assignment and allocation.

13  
14 In addition, Support Services costs attributed to each of the newly regulated hydroelectric  
15 plant groups are subsequently assigned and allocated between newly regulated hydro  
16 stations and unregulated stations as discussed in Ex. F1-2-1. OPG uses a standardized  
17 allocation methodology for attributing costs within plant groups that include newly regulated  
18 and unregulated hydroelectric stations.

19  
20 In 2012, staff were transferred from Operating business units to Support Services groups as  
21 part of Business Transformation. This resulted in costs increasing in Support Services  
22 groups and costs decreasing in Operating groups by an equal amount. The existing cost  
23 allocation methodology continues to be used as it appropriately reflects the work that was  
24 transferred from the Operating groups to the Support groups.

25  
26 In 2013, OPG's allocation methodology was also independently evaluated by HSG Group  
27 Inc.

#### 28 29 **4.1 Direct Assignment**

30 Direct assignment is used when specific resources, both individual employees and specific  
31 cost items, used by a particular business unit can be reasonably established. There is

specific identification of resources where there is a direct relationship between the costs incurred by a support group and the business unit that causes the costs to be incurred. Estimation of the resources used by the business unit may be based on current time estimates or historical activity.

#### **4.2 Allocation**

Allocations are used when more than one business unit uses a resource, but the portions of the resource that each uses cannot be directly established. In these cases, a cost driver is used to allocate the costs of the resource. A cost driver is a formula for sharing the cost of a resource among those who caused the cost to be incurred. There are two types of cost drivers: external and internal drivers. External drivers are based on data that are external to the allocation process. For example, computer hardware costs incurred by the IT group are allocated to business units based on the number of LAN ID's. Internal drivers are based on values computed as part of the cost allocation process. For example, a supervisor's salary may be allocated in proportion to the salaries of the people being supervised.

OPG continues to use three steps when allocating a department's costs:

- Step One – Specific Identification of Resources.
  - The costs of resources specifically identified to a business unit are assigned to it.
  - Labour costs associated with individuals who support only one business unit are assigned to it.
  - Non-labour costs associated directly caused by one business unit are assigned to it.

- Step Two – Estimation of Resources

The next step is to identify the resources in each department that directly support one or more business units and to estimate the resources attributable to each business unit. The costs of these resources are directly assigned to each business unit in proportion to the estimated time required by that business unit.

- Step Three – Assign Cost Drivers

- 1 OPG uses the appropriate standardized cost drivers for all remaining activities or expenses.
- 2
- 3 The resulting assignments and allocations of Support Services costs to regulated
- 4 hydroelectric, newly regulated hydroelectric, and nuclear over the historical, bridge, and test
- 5 years are shown in Ex. F3-1-1 Tables 2 and 3.