

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 regulated facilities (as well as unregulated facilities) are charged a service fee for the use of these assets, which is included in their respective OM&A expenses.

The asset service fee for 2013 is similar to the amount charged in previous years and the fee increases over the test period, due to higher IT in-service additions and depreciation expense.

The service fee methodology used in this Application is the same as that accepted by the OEB in EB-2010-0008 (p. 94) and EB-2007-0905 (p. 60). Ex. F3-2-1 Tables 1 and 2 present asset service fee amounts charged or expected to be charged to hydroelectric and nuclear facilities for years 2010 - 2015.

3.0 ASSET SERVICE FEE METHODOLOGY

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

- OPG Head Office (located in Toronto, Ontario)
- Kipling Site Building Complex (located in Toronto, Ontario)
- Wesleyville (located in Durham County, Ontario)
- Certain shared IT and Energy Markets Assets (together "IT Assets")
- Joint use Hydroelectric Assets

The charts below provide budgeted service fee amounts by asset and by regulated business for the years ending December 31, 2014 and 2015.

Chart 1

Asset Service Fee Amounts – 2014

2014				
\$M	OPG Head Office	Kipling/Wesleyville	IT Assets	Total
Nuclear	8.6	4.4	10.3	23.3
Regulated Hydroelectric	0.7	0.3	0.5	1.5
Newly Regulated Hydro	0.9	0.4	0.7	2.0
Total	10.2	5.1	11.5	26.8

Chart 2

Asset Service Fee Amounts – 2015

2015				
\$M	OPG Head Office	Kipling/Wesleyville	IT Assets	Total
Nuclear	8.8	4.5	13.5	26.8
Regulated Hydroelectric	0.7	0.3	0.7	1.7
Newly Regulated Hydro	0.9	0.3	0.9	2.1
Total	10.4	5.1	15.1	30.6

OPG Head Office

OPG's Head Office (occupying several floors at 700 University Ave.) is partially used by personnel from the regulated business units and support services that support them. The service fee for the use of OPG's Head Office 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 for 2014 and 2015 are computed using after-tax rates of return which are consistent with the proposed weighted average cost of capital rates for the regulated operations as per Exhibit C. The return on equity component is grossed-up by OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is applied to the average budgeted net book value of the building for the year, and then apportioned to each of the regulated facilities using relative square footage which is consistent with the allocation basis used to determine the depreciation expense in the Asset Service Fee.

The components used to establish the projected service fee for OPG's Head Office for the years ending December 31, 2014 and 2015, respectively, are presented below:

Chart 3

Components of Asset Service Fee for OPG's Head Office – 2014

2014				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	1.7	0.1	0.2	2.0
Property Tax	2.2	0.2	0.2	2.6
Operating Costs	2.8	0.3	0.3	3.4
Tax-adjusted Return	1.9	0.1	0.2	2.2
Total	8.6	0.7	0.9	10.2

Chart 4

Components of Asset Service Fee for OPG's Head Office – 2015

2015				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	1.8	0.1	0.2	2.1
Property Tax	2.3	0.2	0.2	2.7
Operating Costs	2.9	0.3	0.3	3.5
Tax-adjusted Return	1.8	0.1	0.2	2.1
Total	8.8	0.7	0.9	10.4

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 Kipling and Wesleyville by the hydroelectric and nuclear business units is computed in the same manner as that used for the OPG Head Office. The same components (i.e., depreciation, property tax, operating costs, and the tax-adjusted return) are apportioned based on relative square footage.

The components used to establish the projected service fee for Kipling and Wesleyville for the years ending December 31, 2014 and 2015, respectively, are presented below:

Chart 5

Components of Asset Service Fee for Kipling/Wesleyville – 2014

2014				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	0.4	0.0	0.0	0.4
Property Tax	0.4	0.0	0.0	0.4
Operating Costs	2.9	0.3	0.3	3.5
Tax-adjusted Return	0.7	0.0	0.1	0.8
Total	4.4	0.3	0.4	5.1

Chart 6

Components of Asset Service Fee for Kipling/Wesleyville – 2015

2015				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	0.3	0.0	0.0	0.3
Property Tax	0.4	0.0	0.0	0.4
Operating Costs	3.0	0.3	0.2	3.5
Tax-adjusted Return	0.8	0.0	0.1	0.9
Total	4.5	0.3	0.3	5.1

IT Assets

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

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

The return on capital amounts for 2014 and 2015 are computed using the proposed weighted average cost of capital rates for the regulated operations as per Exhibit C. The return on equity component is grossed-up by OPG's budgeted statutory tax rate for the year in question. The tax-adjusted rate of return is applied to the average budgeted net book value of the assets for the year apportioned using the relative number of business workstations used by the regulated facilities and the portion of support services that support them. This is consistent with the allocation basis used to determine depreciation expense portion of the Asset Service Fee.

The components used to establish the service fee for IT Assets for the years ending December 31, 2014 and 2015, respectively, are presented below:

Chart 7

Components of Asset Service Fee for IT Assets – 2014

2014				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	7.3	0.4	0.5	8.2
Tax-adjusted Return	3.0	0.1	0.2	3.3
Total	10.3	0.5	0.7	11.5

Chart 8

Components of Asset Service Fee for IT Assets – 2015

2015				
\$M	Nuclear	Regulated Hydroelectric	Newly Regulated Hydro	Total
Depreciation Expense	8.8	0.5	0.6	9.9
Tax-adjusted Return	4.7	0.2	0.3	5.2
Total	13.5	0.7	0.9	15.1

Joint Use Hydroelectric Assets

Within the hydroelectric plant groups containing newly regulated hydroelectric stations, certain facilities such as control dams and service centers support both newly regulated hydro stations and stations which will remain unregulated, as they are under contract with the Ontario Power Authority.

OPG has applied an asset service fee treatment to those facilities whose dominant use is not the support of newly regulated hydro facilities.

To the extent that 90 per cent or more of aggregate station capacity serviced by the joint-use asset relates to newly regulated hydroelectric stations, the joint use asset is included in rate base. Joint use assets not passing this dominant use test are not included in regulated rate base, but are charged to newly regulated stations and stations under contract with the OPA largely based on the relative capacity of the stations. The asset fee structure is the same as used to charge common real estate and IT assets to regulated operations. The asset service fee for joint use diversion dams on Lake St Joseph has been allocated based on the incremental generation capacity created by the diverted water.

The components used to establish the service fee for Joint Use Hydroelectric Assets for the years ending December 31, 2014 and 2015, respectively, are presented below:

Chart 9
Components of Asset Service Fee for Joint Use Hydro Assets

\$M	2014	2015
Depreciation Expense	0.1	0.1
Property Tax	0.1	0.1
Tax-adjusted Return	0.7	0.7
Total	0.9	0.9