

CAPITAL BUDGET – CORPORATE GROUPS

1.0 PURPOSE

This evidence provides an overview of the capital expenditures by OPG's corporate groups for the historical years, bridge year, and the test period. It also provides period-over-period changes in these explanations.

2.0 OVERVIEW OF CORPORATE GROUP CAPITAL EXPENDITURES

Capital expenditures by OPG's corporate groups that impact rate base or the asset service fee are presented in Ex. D3-T1-S1 Table 1. Capital expenditures will decline in 2011 (\$26.2M) and 2012 (\$27.7M) as compared to 2010 (\$29.2M). Explanations for the changes are discussed in Section 3. A listing of capital projects is provided in Ex. D3-T1-S2.

2.1 Project Management

The capital expenditures by OPG's corporate groups for the regulated facilities are from the Information Technology ("IT") and Real Estate groups within the Business Services and Information Technology ("BS&IT") business unit. BS&IT projects follow OPG governance to ensure that they meet all corporate requirements. An explanation of OPG capitalization policy and project management process is provided in Ex. A2-T2-S1.

Due to the specific nature of IT projects and their impact on the business, the IT project governance process also includes Asset Investment Screening Committees ("AISC"), or their equivalent, for all major OPG business units. These committees provide a forum to align the information technology needs of the business unit into prioritized IT project portfolios. Business unit committee member responsibilities include: screening information technology project requests from within their own business unit; ensuring information technology projects alignment with business priorities; and ensuring that a sound business case is developed.

The capital budget available for a given period is established through the business planning process. It is based on an assessment of the needs of the business units to sustain the

1 reliability, availability and performance of existing assets and services, as well as to meet
2 changing regulatory requirements and to improve overall business value.

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4 Business units may request the addition of higher priority out-of-plan projects driven by
5 changing priorities. Consideration is also given to the IT group's capacity to deliver projects
6 and the business unit's ability to absorb the business process changes associated with the
7 capital project delivery.

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9 In 2009, the IT group established additional project governance to improve the capital
10 planning process. BS&IT introduced an OPG-level AISC in addition to the business unit
11 AISCs. The OPG-level AISC consists of senior management from each of the major OPG
12 business units. The OPG AISC challenges and prioritizes the IT project submissions from the
13 business units to ensure the value generated from IT projects is optimized across OPG. This
14 additional level of review assists in improving the quality of the capital plan and reducing
15 variance against plan, while continuing to provide the required flexibility to the business.

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17 Once BS&IT's projects are completed, the assets associated with them are declared to be in-
18 service. Details on in-service additions are provided in Ex. D3-T1-S2 Tables 1 through 5. In
19 the case where the assets can be directly assigned to either regulated hydroelectric or to
20 nuclear, they are declared as in-service additions to the rate base for the respective business
21 units. If the assets are held centrally, the regulated business units are charged a service fee
22 for the use of these assets (see Ex. F3-T2-S1).

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24 **3.0 PERIOD-OVER-PERIOD VARIANCES:**

25 Period-over-period comparisons of capital expenditures by OPG's corporate groups are
26 presented in EX. D3-T1-S1 Table 2.

3.1 PERIOD-OVER-PERIOD CHANGES – TEST PERIOD

2012 Plan versus 2011 Plan (\$27.7M versus \$26.2M)

Capital costs in 2012 are higher than 2011 primarily due to the execution of the Passport/Asset Suite Upgrade project (\$5.8M) and SAP Upgrade project (\$1.2M) offset by the completion in 2011 of the 700 University Chiller Replacement project (\$5.0M).

2011 Plan versus 2010 Budget (\$26.2M versus \$29.2M)

IT capital costs are lower in 2011 as compared to 2010 due to the completion in 2010 of the Energy Trading and Risk Management (“ETRM”) and Settlements project (\$5.4M), the Day Ahead Commitment Process (\$1.6M), OPG Intranet Replacement (\$1.2M) and Non-Nuclear Financial Reporting & Analysis (\$1.2M). The lower expenditures were offset by the initiation of the SAP Upgrade project (\$2.9M), Migration to Sharepoint (\$2.0M), Warehouse Management Upgrade (\$1.7M), and Network Cabling Upgrades (\$1.5M).

Real Estate's capital costs are lower in 2011 as compared to 2010 due to the transfer of Real Estate's portion of the project funding for the Clarington Energy Park project to Nuclear.

3.2 PERIOD-OVER-PERIOD CHANGES – BRIDGE YEAR

2010 Budget versus 2009 Actual (\$29.2M versus \$23.4M)

Real Estate increases in 2010 to reflect the initiation of the 700 University Chiller Replacement project (\$5.0M). IT expenditures in 2010 are slightly lower due to the completion in 2009 of the Nuclear Enterprise Scheduling project to upgrade Primavera (\$2.9M), the data centre Heating, Ventilation and Air Conditioning (“HVAC”) improvement project (\$2.7M), and the Recabling project for Niagara Plant Group (\$1.3M) offset mainly by the expenditure for the ETRM and Settlements project (\$5.4M) in 2010.

3.3 PERIOD-OVER-PERIOD CHANGES – HISTORICAL PERIOD

2009 Actual versus 2009 Budget (\$23.4M versus \$22.0M)

Actual costs in 2009 are higher than 2009 budget primarily due to the implementation of Nuclear Enterprise Scheduling project to upgrade Primavera to improve and integrate nuclear site outage and project planning (\$2.9M), the data centre Heating, Ventilation and Air

Conditioning ("HVAC") improvement project (\$2.7M), and the Recabling project for Niagara Plant Group (\$1.3M). These higher costs are partially offset by lower than planned expenditures for the Clarington Energy Park project (\$3.5M), Day Ahead project (\$1.6M), and the Energy Market Major Model Review (\$1.4M).

2009 Actual versus 2008 Actual (\$23.4M versus \$14.2M)

Actual costs in 2009 are higher than 2008 due to the data centre HVAC Improvement project (\$2.7M), the implementation of Nuclear Reporting & Analysis (\$1.4M), the execution of the Nuclear Enterprise Scheduling project to upgrade Primavera to improve and integrate nuclear site outage and project planning (\$1.3M), the implementation of Recabling project for the Niagara Plant Group (\$1.3M) and other small projects in 2009.

2008 Actual versus 2008 Budget (\$14.2M versus \$23.9M)

Actual costs in 2008 are lower than budget due to lower than planned activities for Nuclear Accounts Payable Systems Consolidation project (\$1.2M) and an accounting reclassification of a capital project to OM&A in IT resulting in a below budget variance (\$3.0M) for capital expenditures. Other factors contribute to the below budget variances include lower than planned activity on the Clarington Energy Park site servicing and building design work in Real Estate (\$3.5M).

2008 Actual versus 2007 Actual (\$14.2M versus \$28.4M)

Actual costs in 2008 are lower than the 2007 actual costs due to the major effort in 2007 on the Nuclear Cost and Schedule Improvement project to improve the management of plant modification projects (\$3.2M), the 2007 completion of the Clarington Energy Park land purchase (\$5.2M), Bruce Site property renovations (\$3.0M), and the 700 University Dry Cooler System project (\$1.7M).

2007 Actual versus 2007 Budget (\$28.4M versus \$23.6M)

Actual costs in 2007 were higher than the 2007 budget due to higher than anticipated costs for the Clarington Energy Park purchase (\$5.2M), and unplanned 700 University Dry Cooler Systems requirements (\$1.7M).