

Memorandum

To: Kenneth Russell, Counsel, Ontario Electricity Financial Corporation

From: Todd Williams

Date: June 12, 2009

Re: Final (2008) DCR_{new} Calculations

Introduction

OEFC is required to calculate and publish the Final DCR_{new} (2008) as soon as market data are finalized. Recent changes to the timing of the OPG Non-Prescribed Asset Rebate (“ONPA Rebate”) mean that final market data for 2008 are available earlier than prior years. These changes to the ONPA Rebate are outlined in more detail in the updated memo entitled TMC Calculation – The Global Adjustment and the OPG Non-Prescribed Asset Rebate located on the OEFC website.

OEFC has asked Navigant Consulting to perform these calculations. This memo presents the methodology used and results of these calculations.

Methodology and Results

The Final DCR_{new} (2008) value for both 115kV and 230kV is given in Table 1. Unless changes are made to the structure of regulated rates for 115kV and 230kV directly connected customers, it is expected that the DCR_{new} will be the same for both voltage levels going forward.

Table 1: Final DCR_{new} (2008) Values (cents per kWh)

Voltage	2008 Final
115 kV and 230 kV	6.8616

TMC Calculations

The Final TMC (2008) for both the 115kV and 230kV is 6.9483 cents/kWh, as shown in Table 2. Note that for all years subsequent to 2002, the TMC values for 115kV and 230kV are the same based on the prevailing regulated rate structure.

Table 2: Calculation Final (2008) TMC

		Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total / Weighted Average
MARKET RATES														
HOEP	c/kWh	4.074	5.238	5.684	4.898	3.456	5.744	5.658	4.657	4.909	4.527	5.178	4.634	4.8830
WMSC	c/kWh	0.459	0.552	0.557	0.560	0.504	0.704	0.594	0.584	0.543	0.490	0.530	0.586	0.5549
Tx network	\$/kW-mth	2.310	2.310	2.310	2.310	2.310	2.310	2.310	2.310	2.310	2.310	2.310	2.310	
Tx line connection	\$/kW-mth	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590	
DRC	c/kWh	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	0.700	
ONPA Rebate	c/kWh	(0.075)	(0.253)	(0.253)	(0.253)	(0.289)	(0.289)	(0.289)	(0.152)	(0.152)	(0.152)	(0.155)	(0.155)	
Global Adjustment	c/kWh	0.869	0.344	0.102	0.573	1.542	(0.010)	0.326	0.726	0.299	0.804	0.498	1.308	
TOTAL MARKET COST CALCULATION														
Total market cost per month	c/kW-mth	4,774	4,870	5,342	4,954	4,689	5,221	5,490	5,137	4,825	5,029	5,151	5,552	
Total annual market cost	c/kW-yr													61,034
TMC = total market cost	c/kWh													6.9483

115kV and 230kV DCR_{new} Calculations

The Final DCR_{new} (2008) for 115kV and 230kV is 6.8616 cents/kWh, as shown in Table 3, and represents the greater of (i) the average of the 115kV and 230kV TMC for the three calendar-year periods from January 2006 through December 2008 inclusive, based on the number of days in each period, and (ii) the Final DCR_{new}(2007).

Table 3: Final DCR_{new} (2008) for 115kV and 230kV

	2006 Final	2007 Final	2008 Final
Avg annual HOEP	4.6383	4.7806	4.8830
TMC (P) Current, based on actual HOEP WMSC, regulated tariffs, estimated rebate, etc.	6.6721	6.7143	6.9483
DCR _{new}	6.6377	6.8616	
Final DCR _{new} (2008) = greater of: i) Average TMC (2006, 2007, 2008) ii) DCR _{new} (2007)	6.7784	6.8616	
Therefore, Final DCR _{new} (2008)			6.8616

The documentation supporting the values used in the calculation shown herein is all publicly available via the IESO, the OEB and Hydro One Networks.

Background on the DCR

A significant number of NUG PPAs contain provisions that provide for annual contract price adjustment based on the Ontario Hydro Direct Customer Rate ("DCR"). Since the DCR ceased to exist upon market opening it was necessary to establish a replacement index. The Board of Directors of OEFC approved the replacement of the DCR in the PPAs between OEFC and non-utility generators on the basis set out in the draft working paper dated June 24, 2002 prepared by the working committee of OEFC representatives and IPPSO representatives ("*working paper*"). This replacement index is based on the fully loaded cost of 100% load factor power that the typical direct

customer would pay going forward in the restructured market, at the voltage provided. Values for $DCR_{new}(P)$ and $TMC(P)$ in this paper are calculated in accordance with the *working paper*, for year P.

It should be noted that Calculation of the Wholesale Market Service Charges for a given month currently includes the following components:

1. Hourly uplift settlement charges (amount in \$/MWh from IESO data identified as being 'final');
2. Monthly uplift charges (amount in \$/MWh from IESO data identified as being 'final');
3. IESO Administration Charge (amount in \$/MWh as determined by the OEB);
4. Rural and Remote Electricity Rate Protection (amount in \$/MWh, as determined by the OEB); and,
5. OPA Administration Charge (amount in \$/MWh, as determined by the OEB).

The Wholesale Market Service Charges published in IESO monthly reports (currently Section 8 of that report) are not used for TMC calculations, since they are based on unfinalized hourly uplift settlement charges.

At market opening, the Market Power Mitigation Agreement (MPMA) rebate framework applied to all Ontario consumers, and as such, is incorporated in DCR_{new} calculations. Bill 210 replaced the MPMA rebate with the more transparent Business Protection Plan Rebate (BPPR) insofar as customers are concerned. While the MPMA rebate was used in the TMC calculations for May 1, 2002 to April 30, 2003, the BPPR was used in the TMC calculation for subsequent periods.

Once again the rebate mechanism changed and the calculation of TMC was updated to reflect this change. Under the Electricity Restructuring Act 2004 (Bill 100), a new rebate mechanism was created called the global adjustment. The global adjustment reflects the difference between total payments made to contracted assets (including NUGs and RFP generators), load reduction contracts and regulated OPG generators (prescribed assets) and any offsetting market revenues. The global adjustment is calculated and paid each month and can be either positive or negative.

In addition to the global adjustment, the new regulation includes the temporary OPG Non-Prescribed Assets ("OPNA") rebate. The OPNA rebate is estimated monthly and there will be a one time payment after the rebate period has ended. More detail on these new rebates and their treatment in the calculation of total market cost can be viewed in the Navigant Consulting letter to OEFC dated April 20, 2006 and posted on the OEFC website.