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NAVIGANT CONSULTING

Memorandum

To: **Kenneth Russell, Counsel, Ontario Electricity Financial Corporation**

From: **Todd Williams**

Date: **July 7, 2011**

Re: **Changes in the Global Adjustment Allocation**

A 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 replacements for 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 NUG Advisory Committee of OEFC representatives and IPPSO representatives ("*working paper*"). These replacement indexes (DCR_{new} and TMC_{Index}) are based on the cost of uninterruptible power at 100 per cent load factor to wholesale market participant industrial customers. Values for TMC_{Index}(P) and TMC(P) are calculated in accordance with the *working paper*, for year P. The DCR_{new} is derived from the Total Market Cost (TMC) and includes the cost of the commodity, transmission and all other related charges.

The calculation of the DCR_{new} and TMC continues to incorporate new charges and changes to electricity-related charges that have emerged since the former Ontario Hydro's DCR ceased to exist. At market opening, the Market Power Mitigation Agreement (MPMA) rebate framework applied to all Ontario consumers, and as such, was incorporated in TMC calculations. The MPMA rebate was replaced with the more transparent Business Protection Plan Rebate (BPPR). 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 up to March 31, 2005. The OPG Non-Prescribed Assets ("OPNA") rebate began on April 1, 2005 and ended April 30, 2009, but was last paid to market participants for the period ending January 31, 2009. Additional details on these rebates and their treatment in the calculation of total market cost can be viewed in the updated Navigant Consulting letter to OEFC dated April 27, 2006 and posted on the OEFC website.

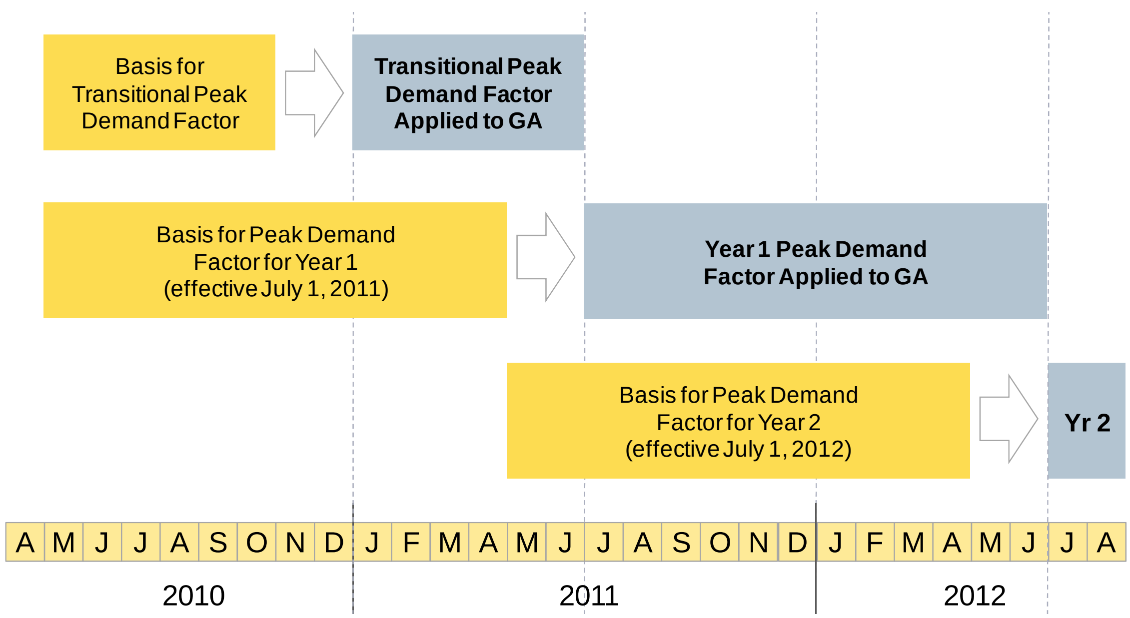
Under the *Electricity Restructuring Act, 2004*, a new mechanism was created called the Global Adjustment. The calculation of the TMC was updated to reflect this change. The Global Adjustment reflects the difference between total payments made to contracted assets (including those with NUG or OPA contracts), load reduction contracts and regulated OPG generators (prescribed assets) and any offsetting market revenues. The Global Adjustment is calculated and paid each month and has been positive and negative.

Changes in the Global Adjustment Allocation

Prior to 2011, the Global Adjustment was allocated to all consumers based on their energy use. Ontario Regulation 398/10 changed this by amending Ontario Regulation 429/04. The amended regulation establishes two classes of consumers: Class A consumers, with average monthly demand greater than 5 MW; and Class B consumers. Class A consumers contribute to the Global Adjustment proportionate to their contribution to system peak demand during the five system peak hours identified by the IESO. A peak demand factor will be calculated for each Class A consumer based on their historical contribution to the system peak demand during the five peak hours in a specified reporting period. This peak demand factor will then be used to determine that consumer's contribution to GA costs throughout the subsequent billing period. The rest of the Global Adjustment is allocated to Class B consumers based on their energy use during the billing period.

The change became effective January 1, 2011 with the determination of a peak demand factor for each Class A consumer based on a "transitional" reporting period from May 1, 2010 through October 31, 2010. The peak demand factors will remain unchanged until July 1, 2011, when they will be recalculated based on a reporting period from May 1, 2010 through April 30, 2011. This new peak demand factor will remain unchanged for one year until July 1, 2012 when it will be updated based on a reporting period from May 1, 2011 through April 30, 2012. The relationship between the reporting periods used in determining each consumer's peak load factor and the period over which the resultant peak load factor is applied is shown below.

Figure 1: Temporal Relationship between the Basis for and the Application of Peak Demand Factors



Under the recent technical changes to the Global Adjustment, virtually all of the consumption of wholesale market participants, excluding licensed distributors and generators, will qualify as consumption by Class A market participants.

Reflecting Changes in the Global Adjustment Allocation in the Total Market Cost (TMC)

Beginning in 2011, the calculation of the TMC has been modified to reflect the way in which the Global Adjustment is allocated among consumers. The Global Adjustment amount included in the TMC will be calculated according to the formula below:

$$\mathbf{TMC_{GA} = Total\ \$\ GA\ charge\ for\ the\ period\ /\ (Average\ System\ Peak\ Demand * Hours\ in\ period)}$$

The total system Global Adjustment is available at the following website (www.ieso.ca/imoweb/b100/b100_GA.asp). The Average System Peak Demand is the average System Peak Demand during the five peak hours of the Base Period, as determined by the IESO. This information is available at the following link (www.ieso.ca/imoweb/b100/ga_changes.asp)

The inclusion of the amount of the Global Adjustment for Class A consumers in the TMC according to the calculation given above satisfies the definition of TMC and ensures that the TMC continues to reflect the cost of uninterruptible power at a 100 per cent load factor to wholesale market participant industrial customers.