

Memorandum

To: Kenneth Russell, Counsel, Ontario Electricity Financial Corporation
From: Todd Williams
Date: July 10, 2008
Re: Final DCR_{new} (2007) Calculations

Introduction

OEFC is required to calculate and publish the Final DCR_{new} (2007) as soon as market data are finalized. Recent changes to the timing of the OPG Non-Prescribed Asset Rebate (“ONPA Rebate”) means that final market data for 2007 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.

This memo will update the TMC values with the recently released ONPA Rebate information for the period November 1, 2007 through December 31, 2007 and therefore provide a Final DCR_{new} (2007).

Methodology and Results

The Final DCR_{new} (2007) values for both 115kV and 230kV are 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. This memo presents the DCR_{new} calculations for both voltage levels.

Table 1: Final DCR_{new} (2007) for 115kV and 230kV (cents/kWh)

Voltage	2007 Final
115 kV and 230 kV	6.8616

TMC Calculations

The Final TMC (2007) for both the 115kV and 230kV is 6.7143 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 of Final 115kV and 230kV TMC (2007)

		Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total / Weighted Average
MARKET RATES														
HOEP	c/kWh	4.448	5.912	5.485	4.605	3.850	4.438	4.390	5.362	4.463	4.891	4.695	4.908	4.7806
WMSC	c/kWh	0.599	0.545	0.451	0.365	0.446	0.543	0.452	0.501	0.492	0.409	0.436	0.581	0.4910
Tx network	\$/kW-mth	2.830	2.830	2.830	2.830	2.830	2.830	2.830	2.830	2.830	2.830	2.310	2.310	
Tx line connection	\$/kW-mth	0.820	0.820	0.820	0.820	0.820	0.820	0.820	0.820	0.820	0.820	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	(0.070)	(0.269)	(0.269)	(0.269)	(0.050)	(0.050)	(0.050)	(0.182)	(0.182)	(0.182)	(0.075)	(0.075)	
Global Adjustment	c/kWh	0.681	(0.551)	(0.037)	0.472	1.040	0.623	0.637	0.030	0.477	0.352	0.650	0.456	
TOTAL MARKET COST CALCULATION														
Total market cost per month	c/kW-mth	5.095	4.623	5.074	4.594	4.818	4.868	4.925	5.135	4.649	4.955	4.902	5.178	
Total annual market cost	c/kW-yr													58,818
TMC = total market cost	c/kWh													6.7143

115kV and 230kV DCR_{new} Calculations

The Final DCR_{new} (2007) for 115 kV 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 six half-year periods from January 2005 through December 2007 inclusive, based on the number of days in each period, and (ii) the Final DCR_{new}(2006).

Table 3: Final 115kV and 230kV DCR_{new} (2007)

	2005 Final	2006 Final	2007 Final
Avg annual HOEP	6.8354	4.6383	4.7806
TMC (P) Current, based on actual HOEP WMSC, regulated tariffs, estimated rebate, etc.	7.1982	6.6721	6.7143
DCR _{new} (115kV)	6.4410	6.6377	
DCR _{new} (230kV)			
Final DCR _{new} (2007) = greater of: i) Average TMC (2005, 2006, 2007) ii) DCR _{new} (2006)	6.8616	6.6377	
Therefore, Final DCR _{new} (2007)			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 components¹:

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); and,
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 TMC calculations. Bill 210 replaced the MPMA rebate 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.

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 OPG Non-Prescribed Assets ("OPNA") rebate. More detail on these new rebates and their treatment in the calculation of total market cost can be viewed in the updated Navigant Consulting letter to OEFC dated April 20, 2006 and posted on the OEFC website.

¹ Effective January 2007, the Wholesale Market Service Charge also includes a fee for the Ontario Power Authority ("OPA"). For fiscal 2006, OPA fees were covered by surplus funds from the retailer contract settlement payments.