

Memorandum

To: Kenneth Russell, Counsel, Ontario Electricity Financial Corporation

From: Todd Williams

Date: August 3, 2010

Re: Final (2009) DCR_{new} Calculations

Introduction

OEFC is required to calculate and publish the Final (2009) TMC and DCR_{new} as soon as market data are available. The data for both calculations are now available and OEFC has asked Navigant Consulting to perform these calculations.

This calculation of the 115 kV and 230 kV TMC has been adjusted to reflect changes resulting from Hydro One's application dated May 30, 2008 with the OEB for an order adjusting rates for the transmission of electricity to be implemented on January 1, 2009. Hydro One's application sought adjustments to its Ontario Uniform Transmission Rate schedules. On August 28, 2009 the OEB approved Hydro One's proposal that uniform transmission rates and revenue shares be adjusted as originally set out by Hydro One in its application. As such, updates have been made to the TMC calculation to reflect these approved adjustments.

Also impacting the TMC calculation is an IESO operating surplus rebate paid to market participants based on their proportionate quantity of energy withdrawn from the grid (excluding exports)¹ in 2009. Navigant Consulting has reflected this rebate as a volumetric charge in the Final (2009) TMC calculation presented below.

Under Ontario Regulation 66/10² made on February 24, 2010 the IESO is allowed to recover the amount it is assessed with respect to the expenses and expenditures made by the Ministry of Energy and Infrastructure for its energy conservation and renewable energy programs. The IESO is responsible for collecting this amount from non-LDC market participants based on their 2009 average quantity of energy withdrawn³. Navigant Consulting has reflected this rebate as a volumetric charge in the Final (2009) TMC calculation presented below.

¹ IESO Weekly Bulletin (May 13, 2010); <http://ieso.ca/imoweb/news/bulletinItem.asp?bulletinID=5216>

² Ontario Regulation 66/10; http://www.e-laws.gov.on.ca/html/source/regs/english/2010/elaws_src_regs_r10066_e.htm

³ IESO Market Participant News - Proposed Document Changes Related to the Conservation Assessment Recovery Charge Available for Review; April 22, 2010 <http://www.ieso.ca/imoweb/news/newsItem.asp?newsItemID=5177>

115 kV and 230 kV DCR_{new} Calculation

The Final DCR_{new} (2009) for 115 kV and 230 kV is 7.1725 cents/kWh, as shown in Table 3, and represents the greater of (i) the average of the 115 kV and 230 kV TMC for the three calendar-year periods from January 2007 through December 2009 inclusive, based on the number of days in each period, and (ii) the Final DCR_{new}(2008).

Table 3: Final DCR_{new} (2009) for 115 kV and 230 kV

	2007 Final	2008 Final	2009 Final
Avg annual HOEP	4.7806	4.8830	2.9518
TMC (P) Current, based on actual HOEP WMSC, regulated tariffs, estimated rebate, etc.	6.7143	6.9483	7.8553
DCR _{new}	6.8616	6.8616	
Final DCR _{new} = greater of: i) Average TMC (2007, 2008, 2009) ii) DCR _{new} (2008)	7.1725	6.8616	
Therefore, Final DCR _{new} (2009)			7.1725

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 IMO monthly reports (currently Section 8 of that report) are not used for TMC calculations, since they are based on preliminary 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 OPG Non-Prescribed Assets ("OPNA") rebate, which 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.