

Memorandum

To: Kenneth Russell, Counsel, Ontario Electricity Financial Corporation

From: Todd Williams

Date: August 3, 2010

Re: Interim (2010) DCR_{new} Calculations

Introduction

OEFC is required to calculate and publish the Interim (2010) 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.

The calculation of the 115kV and 230 kV TMC has been adjusted to reflect changes resulting from the updated EB-2008-0272 Ontario Uniform Transmission Rate Order issue by the OEB on January 21, 2010.

Methodology and Results

The Interim DCR_{new} (2010) values for both 115 kV and 230 kV are given in Table 1. Unless changes are made to the structure of regulated rates for 115 kV and 230 kV directly connected customers, it is expected that the DCR_{new} will be the same for both voltage levels going forward.

Table 1: Interim (2010) DCR_{new} Values (cents per kWh)

| Voltage | Interim 2010 |
|-------------------|--------------|
| 115 kV and 230 kV | 7.4239 |

TMC Calculations

The Interim TMC (2010) for both the 115 kV and 230 kV is 8.2154 cents/kWh, as shown in Table 2. Note that for all years subsequent to 2002, the TMC values for 115 kV and 230 kV are the same based on the prevailing regulated rate structure.

Table 2: Calculation of Interim (2010) TMC

| | | Jan | Feb | Mar | Apr | May | Jun | July | Aug | Sep | Oct | Nov | Dec | Total / Weighted Average |
|--------------------------------------|-----------|-------|-------|-------|-------|-------|-------|------|-----|-----|-----|-----|-----|--------------------------------|
| MARKET RATES | | | | | | | | | | | | | | |
| HOEP | c/kWh | 3.740 | 3.590 | 2.822 | 3.083 | 3.877 | 4.036 | | | | | | | 3.5232 |
| WMSC | c/kWh | 0.513 | 0.496 | 0.557 | 0.550 | 0.525 | 0.556 | | | | | | | 0.5331 |
| Tx network | \$/kW-mth | 2.970 | 2.970 | 2.970 | 2.970 | 2.970 | 2.970 | | | | | | | |
| Tx line connection | \$/kW-mth | 0.730 | 0.730 | 0.730 | 0.730 | 0.730 | 0.730 | | | | | | | |
| DRC | c/kWh | 0.700 | 0.700 | 0.700 | 0.700 | 0.700 | 0.700 | | | | | | | |
| Global Adjustment | c/kWh | 2.700 | 2.591 | 3.907 | 3.560 | 2.434 | 2.466 | | | | | | | |
| TOTAL MARKET COST CALCULATION | | | | | | | | | | | | | | |
| Total market cost per month | c/kW-mth | 6,064 | 5,327 | 6,312 | 6,053 | 5,976 | 5,955 | | | | | | | |
| Total annual market cost | c/kW-yr | | | | | | | | | | | | | 35,688 |
| TMC = total market cost | c/kWh | | | | | | | | | | | | | 8.2154 |

115kV and 230kV DCR_{new} Calculation

The Interim DCR_{new} (2010) for 115 kV and 230 kV is 7.4239 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 July 2007 through June 2010 inclusive, based on the number of days in each period, and (ii) the Final DCR_{new}(2009).

Table 3: Interim DCR_{new} (2010) for 115 kV and 230 kV

| | 2007 Final | 2008 Final | 2009 Final | Interim 2010 |
|---|------------|------------|------------|---------------|
| 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 | 8.2154 |
| DCR _{new} | 6.8616 | 6.8616 | 7.1725 | |
| Interim DCR _{new} = greater of: i) Average of TMC (July 2007 to June 2010) ii) DCR _{new} (2009) | 7.4239 | | | |
| Therefore, Interim DCR _{new} (2010) | | | | 7.4239 |

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.