UNDERTAKING J15.2

Undertaking

To explain the component of gross revenue charge built into payment amount.

Response

The gross revenue charge ("GRC") is included as a cost as part of the revenue requirement used in calculating the payment amount for regulated hydroelectric production. By virtue of the formula used to derive the payment amount (revenue requirement divided by forecast production), the payment amount per MWh includes a portion related to GRC.

For example, in setting payment amounts for regulated hydroelectric production in EB-2007-0905, the OEB approved total GRC costs of $424.0M (Payment Amounts Order, EB-2007-0905, Appendix A, Table 1, line 16, column (i)). This amount formed part of the Approved Revenue Requirement for Regulated Hydroelectric of $1,153.4M (Payment Amounts Order, EB-2007-0905, Appendix B, Table 1, line 3). Based on the forecast production figure of 31,459 GWh (presented as 31.5 TWh in Payment Amounts Order, EB-2007-0905, Appendix B, Table 1, line 4), each payment amount of $36.66/MWh includes $13.48/MWh for GRC costs ($424.0M / 31,459 GWh).

When OPG computes the entries into the Hydroelectric Water Conditions Variance Account, it multiplies the variance in production due to the difference between forecast and actual water conditions by the OEB-approved payment amount of $36.66/MWh in order to arrive at the amount of revenue over or under-collected by OPG. A change in hydroelectric production results in a change in GRC from the originally forecast amount included in the revenue requirement. OPG includes this GRC variance as part of the entries in the Hydroelectric Water Conditions Variance Account.

Entries into the variance account for the impact of GRC are necessary and appropriate because had the actual water conditions been known at the time the payment amounts were set, the GRC costs would have been different from the forecast amount, leading to a higher or lower revenue requirement. The variance account entry for GRC keeps both the ratepayers and OPG whole by flowing the appropriate credit or debit to ratepayers and ensuring that OPG recovers the GRC cost associated with production based on actual water conditions.

For the period April 1, 2008 to December 31, 2009, the GRC cost would have been $34.1M higher (Ex. H1-T1-S1, Table 2, line 5, column (b) + column (c)), or at $458.1M. This was due to hydroelectric production being 2,470 GWh higher than forecast as a result of better than expected water conditions (Ex. H1-T1-S1, Table 2, line 3, column (b) + column (c)). By recording a credit to ratepayers for this production variance at the full payment amount of $36.66/MWh, which includes $13.48/MWh for GRC costs, OPG is returning a portion of the original forecast of GRC costs of $424.0M for the test period. This fully offsets the fact that OPG has collected more GRC costs in the normal course

as a result of having higher revenues by virtue of receiving the $36.66/MWh payment amount for a higher volume of production. Because these two amounts offset each other, without the GRC entry into the variance account, OPG would be under-recovering the actual GRC costs.

The calculation showing how the GRC entry into the variance account ensures appropriate level of recovery is as follows:

Amount of GRC originally included in the revenue requirement	$424.0M
Additional amount collected due to higher production resulting from better than expected water conditions (2,470 GWh x $13.48/MWh)	$33.3M
Amount returned to ratepayers as part of the variance account by crediting for production variance at $36.66/MWh (2,470 GWh x $13.48/MWh)	($33.3M)
GRC entry into the variance account	$34.1M
Net amount of GRC being collected from ratepayers	**$458.1M**

Without the line "GRC entry into the variance account" above, the net amount of GRC being collected from ratepayers would be at $424.0M, and OPG would not recover the additional GRC of $34.1M associated with higher production due to the variance in water conditions. As GRC is a material cost directly resulting from the level of production at OPG's regulated hydroelectric facilities (which in turn is affected by uncontrollable factors such as weather conditions) and is not a cost within OPG's control, the exclusion of the impact on this cost from the scope of the variance account would be unfair to both ratepayers and OPG. The inclusion of the GRC component in the variance account acts symmetrically by crediting ratepayers when water conditions are lower than expected, and vice versa.

OPG has applied the same method of computing entries to the Hydroelectric Water Conditions Variance account (including the GRC component) during the period starting on April 1, 2008 as it had during the period April 1, 2005 to March 31, 2008. The OEB approved the balance computed in the variance account using this method as at December 31, 2007 for recovery from ratepayers in EB-2007-0905, and authorized the continuation of the account effective April 1, 2008.

Specifically, Appendix F, page 3 of the EB-2007-0905 Payment Amounts Order states that "The Hydroelectric Water Conditions Variance Account shall record the financial consequences of differences between forecast and actual water conditions as proposed in OPG's application." (emphasis added). Higher or lower GRC costs resulting from a variance in production due to different actual water conditions is a "financial consequence" to OPG. Later in the same paragraph and continuing on the following

page, the Payment Amounts Order specifically directs OPG to record both the revenue and GRC impacts of differences in hydroelectric energy production in this account.