

November 20, 2008

VIA EMAIL and COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

EB-2007-0905 Ontario Power Generation Inc. Draft Order for Payment Amounts for the Period April 1, 2008 – December 31, 2009

The IESO is writing to provide comments on the draft rate order circulated by OPG for payment amounts for the period April 1, 2008 – December 31, 2009.

The IESO takes no position with respect to the calculation of:

- a) the revenue requirement;
- b) the hydroelectric payment amount;
- c) the nuclear payment amount;
- d) the nuclear payment amount rider A for the amortization of approved variance and deferral account balances; and
- e) the variance and deferral accounts.

The proposed rate order makes provision for the use of three interim period recovery riders to provide for the recovery of the shortfall in payment amounts OPG has received between the effective date of the new payment amounts, April 1, 2008, and the implementation of the Board's order December 1, 2008. The Board has directed that this shortfall be recovered over the balance of the test period being the period December 1, 2008 to December 31, 2009.

The IESO submits that the use of the proposed three interim period recovery riders introduces significant and unnecessary complexity to the implementation of the Board's decision. As proposed, these interim period recovery riders would be difficult to explain to wholesale customers, and the required payments, both from customers as well as to OPG, would fluctuate over the test period. These riders would require the development of new settlement tools by the IESO to facilitate the calculation and billing of customers, as well as introduce additional control and audit process complexity.

With a view to facilitating the implementation of the Board's decision and simplifying both the concept of recovery of the shortfall and the implementation of necessary settlement processes to do so, the IESO proposes an alternative rate order which would calculate the total amount payable to OPG for the shortfall in payments actually made over the period April 1, 2008 to November 30, 2008 ("interim period"). This total is divided into 13 equal sums to reflect the 13 monthly periods remaining in the test period to establish a fixed amount to be recovered monthly from customers based on their pro rata consumption during the interim period. Using the tables filed by OPG, the total shortfall in payment for the interim period is \$226.3 million, consisting of:

Hydroelectric revenue shortfall Appendix E, table 1, line 5,	\$41.7 million
Nuclear revenue shortfall, Appendix E, table 3, line 5,	\$117.2 million
Nuclear payment amount rider A shortfall, Appendix D, table 1, line 9, \$2.00/MWh multiplied by the forecast interim period production 33.7 TWh, Appendix E, table 3, line 4	\$67.4 million

The total of \$226.3 million results in a monthly shortfall payment to OPG of \$17.4 million. This monthly sum would be invoiced to wholesale customers based on their pro rata consumption over the interim period. This would require a one time calculation for each customer based on their consumption over the interim period and would be a fixed charge. The IESO has estimated that the adoption of this less complicated process to recover the shortfall will result in savings of approximately \$40,000 and allow settlement staff to focus on the implementation of other changes necessitated by the Board's decision.

In summary, though it would be difficult to do so in the tight timeline contemplated by the Board, the IESO confirms that it can implement the proposed OPG rate order. However, given that the proposed OPG rate order introduces undesirable complexity and cost without providing commensurate benefit for consumers, the IESO submits that it is preferable to utilize the alternative described above and set out in the attached draft rate order extract.

Yours truly,

Original Signed by:

John M. Rattray

Attachment

cc: Ontario Power Generation Inc. via email
Intervenors via email

The Board therefore orders that:

1. The test period revenue requirement is \$1,153.4M for the prescribed hydroelectric facilities and \$4,850.9M for the prescribed nuclear facilities, as set out in Appendix A. These revenue requirements shall form the basis of the payment amounts, including the authorized nuclear payment amount rider A.
2. Effective April 1, 2008 and subject to section 3, for the prescribed hydroelectric facilities, the payment amount is \$36.66/MWh, as set out in Appendix B.
3. a) For the period April 1, 2008 – November 30, 2008, where the total combined output of the prescribed hydroelectric facilities exceeds 1,900 megawatt hours in any hour, the hydroelectric payment amount applies to output from the prescribed facilities up to 1,900 MWh in any hour and production over 1,900 MWh in any hour receives the market price from the IESO-administered energy market determined under the market rules. As set out in Appendix E, table 1, line 5, for the period April 1, 2008 – November 30, 2008 the amount of the hydroelectric revenue shortfall between the amount actually paid to OPG and the amount calculated using the payment amount of \$36.66/MWh applied to the forecast output of the prescribed hydroelectric facilities is \$41.7 million. Payment of the shortfall shall be made in accordance with section 6 below.

b) For the period after December 1, 2008, the IESO shall calculate and make payments to OPG using the hydroelectric payment amount of \$36.66/MWh. This payment amount applies to the average hourly net energy production in megawatt hours from the prescribed hydroelectric facilities in any given month (the “hourly volume”) for each hour of that month. Net energy production over the hourly volume that is supplied into the IESO-administered energy market will receive the market price, calculated on a five minute basis. Where net energy production from the regulated hydroelectric facilities that is supplied into the IESO-administered energy market is less than the hourly volume, OPG’s revenues will be adjusted by the difference between the hourly volume and the actual net energy production that is supplied into the IESO-administered energy market at the market price, calculated on a five minute basis.
4. Effective April 1, 2008, for the prescribed nuclear facilities, the payment amount is \$52.98/MWh, as set out in Appendix C. For production after December 1, 2008 the IESO shall calculate and make payments to OPG using this payment amount. As set out in Appendix E, table 3, line 5, for the period April 1, 2008 to November 30, 2008 the nuclear revenue shortfall between the amount actually paid to OPG and the amount calculated using the payment amount of \$52.98/MWh applied to the forecast nuclear volume is \$117.2 million. Payment of the shortfall shall be made in accordance with section 6 below.
5. Effective April 1, 2008, for the prescribed nuclear facilities, the nuclear payment amount rider A for the amortization of approved variance and deferral account

balances is \$2.00/MWh, as set out in Appendix D. For production after December 1, 2008, the IESO shall calculate and make payments to OPG for its nuclear production using this nuclear payment amount rider A. As set out in Appendix D, table 1, for the period April 1, 2008 to November 30, 2008, the nuclear variance and deferral account rider A shortfall between the amounts actually paid to OPG and the amount payable based on the application of the nuclear payment rider A amount of \$2.00/MWh to forecast nuclear production is \$67.4 million. This is calculated by multiplying the nuclear variance and deferral account rider A of \$2.00/MWh as set out in Appendix D, table 1, at line 9 by the forecast production of 33.7 TWh for the interim period, as set out in Appendix E, table 3, line 4. Payment of the shortfall shall be made in accordance with section 6 below.

6. The total shortfall in the amount payable to OPG for the period April 1, 2008 to November 30, 2008 is \$226.3 million. Recovered over the period December 1, 2008 to December 31, 2009 in equal amounts, the monthly amount payable to OPG for the shortfall is \$17.4 million. In addition to the new payment amounts for production from December 1, 2008, the IESO shall collect on a monthly basis the sum of \$17.4 million from wholesale customers based on each customer's historical actual load consumption for the period between April 1, 2008 and November 30, 2008.
7. The IESO shall make payments to OPG in accordance with this order as of December 1, 2008.
9. OPG shall recover the balances in the following variance and deferral accounts in accordance with Appendix F:
 - Hydroelectric Water Conditions Variance Account
 - Ancillary Services Net Revenue Variance Account
 - Transmission Outages and Restrictions Variance Account
 - Pickering A Return to Service Deferral Account
 - Nuclear Liability Deferral Account, Transition
 - Nuclear Development Deferral Account, Transition
10. OPG shall maintain the following variance and deferral accounts in accordance with Appendix F:
 - Hydroelectric Water Conditions Variance Account
 - Ancillary Services Net Revenue Variance Account
 - Pickering A Return to Service Deferral Account
 - Nuclear Liability Deferral Account
 - Nuclear Development Variance Account
11. OPG shall establish the following variance and deferral accounts in accordance with Appendix F:
 - Capacity Refurbishment Variance Account
 - Nuclear Fuel Cost Variance Account
 - Income and Other Taxes Variance Account
 - Bruce Lease Net Revenues Variance Account