

Methodology for Calculating 2010 Usage Fee and Process for Rebating any Revenue Surplus

Year 2010 Regulatory Approvals – IESO Usage Fee

This document briefly explains how the IESO calculated the proposed 2010 usage fee and it forecasts the usage fee for 2011 and 2012. It also explains how the IESO proposes to rebate any revenue surplus.

Revenue Sources

There are two sources of revenue for 2010:

- Cost recovery for services; and
- Revenue from IESO fees

Cost Recovery for Services

The IESO will recover the costs of services that are directly attributable to market participants, such as training and assessments, as well as the costs of services provided to the Ontario Power Authority. The estimated total revenues from such cost recovery services in 2010 are \$2.0 million.

Revenue from IESO Fees

The OEB approved the IESO's fee structure in 2000. This fee structure, which has been in effect since market opening, includes an application fee of \$1,000 per application, plus a \$/MWh usage fee. The revenue from application fees is expected to be negligible in 2010.

Usage Fee

There are three basic steps involved in calculating the usage fee:

The first step is to identify the projected revenue required by the IESO to operate its business.

| Revenue Requirement Calculation for IESO Usage Fee | | | |
|---|-------------|-------------|-------------|
| (\$ millions) | 2010 | 2011 | 2012 |
| Overall Revenue Requirement | 124.8 | 124.8 | 129.2 |
| Less: Other Revenues | | | |
| • Cost recovery for services | 2.0 | 2.1 | 2.1 |
| Revenue Requirement to be recovered by IESO Usage Fee | 122.8 | 122.7 | 127.1 |

The second step is to estimate the charge determinant. The charge determinant is the total forecast AQEW (Allocated Quantity of Energy Withdrawn) and SQEW (Scheduled Quantity of Energy Withdrawn (i.e. scheduled exports) in TWh:

| Year | 18-Month Outlook Demand Forecast (TWh) | - | Transmission Line Losses (TWh) | + | Exports (TWh) | = | Market Demand (TWh) |
|-------------|---|----------|---------------------------------------|----------|----------------------|----------|----------------------------|
| 2010 | 142.5 | - | 3.1 | + | 10.0 | = | 149.4 |
| 2011 | 142.3 | - | 3.1 | + | 10.1 | = | 149.3 |
| 2012 | 141.4 | - | 3.1 | + | 10.2 | = | 148.5 |

The third step is the usage fee calculation, which entails dividing the forecast Revenue Requirement by the forecast Market Demand:

| Year | Revenue Requirement To Be Recovered (\$ million) | ÷ | Market Demand (TWh) | = | Usage Fee (\$/MWh) |
|------|--|---|---------------------|---|--------------------|
| 2010 | 122.8 | ÷ | 149.4 | = | 0.822 |
| 2011 | 122.7 | ÷ | 149.3 | = | 0.822 |
| 2012 | 127.1 | ÷ | 148.5 | = | 0.856 |

Implementation of 2010 usage fee

The requested usage fee for 2010 represents no change from the approved 2009 usage fee.

Rebate of Deferral Account Balance Surplus

The 2009 projected outlook is for a deficit of \$0.3 million which, when added to the \$5 million surplus in the IESO's deferral account, would result in an accumulated surplus of \$4.7 million. The IESO is therefore projecting no rebate in 2010. If, however, the IESO does realize a surplus in excess of \$5 million, the IESO proposes that the excess be rebated to market participants based on their proportionate amount of energy withdrawn from the IESO controlled grid during 2009, following approval of the audited 2009 financial statements by the IESO Board of Directors.

As requested in the IESO's rate application, the IESO is also seeking authorization to rebate, in 2011, the amount of any accumulated surplus from the fiscal 2010 year remaining in its deferral account in excess of \$5 million. This amount would also be rebated to market participants based on their proportionate amount of energy withdrawn during 2010, following approval of the audited 2010 financial statements by the IESO Board of Directors.