

REGULATED PRICE PLAN – COST TRACKING

QUARTERLY VARIANCE EXPLANATION (MAY - JULY 08)

This document has been prepared at the request of the Ontario Energy Board (OEB, or the “Board”). The Board’s objective is to better inform interested stakeholders and consumers about the Regulated Price Plan (RPP) and the factors that have contributed to the difference between the forecast price that RPP consumers currently pay and the actual cost to supply those consumers. An appendix provides monthly values for the key contributing factors. This document is updated on a quarterly basis when all the information becomes available.

All of the statistics presented in this report are taken or derived from publicly available information sources. Neither Navigant Consulting nor the OEB has audited this information. Any revisions by the providers of the actual data will be included in future updates of this report.

This report is available on the Regulated Price Plan (RPP) Web page of the OEB Web site at www.oeb.gov.on.ca (see quick link under “Major Key Initiatives”). Any technical questions regarding this report can be directed to Chris Cincar at 416-440-7696 or Russell Chute at 416-440-7682.

Regulated Price Plan consumers pay a stable price for electricity that is set in advance by the Board. The initial RPP prices went into effect on April 1, 2005 and remained in place for a thirteen month period (April 2005 through April 2006). Now the Board reviews RPP prices every six months and adjusts them, as needed, based on:

- a forecast of electricity costs to supply RPP consumers for the coming period; and
- the outstanding variance balance at the end of the previous period.

The RPP prices, effective May 1, 2008 through April 30, 2009, were announced by the Board on April 11, 2008.

This report focuses on how well those RPP prices recover the costs of electricity supplied to RPP consumers and reduces the outstanding variance account balance.¹

The Board has now begun to issue this report on a quarterly basis, with the next Quarterly Variance Explanation report in November 2008.

¹ The current RPP tiered prices are 5.0 cents per kWh (for consumption below the tier threshold) and 5.9 cents per kWh (for consumption above the tier threshold). The tiered prices remained unchanged from the previous RPP period.

There are essentially three sources of supply for the RPP in the current hybrid electricity market structure:

1. Generating facilities subject to regulated prices, or under contract to the Ontario Power Authority (OPA) or the Ontario Electricity Financing Corporation (OEFC);
2. Ontario Power Generation (OPG) facilities which are subject to a revenue cap; and,
3. Generating facilities that receive the wholesale spot market price.

The first two groups of generating facilities supply electricity into Ontario's wholesale electricity market and are paid the wholesale spot market price. However, under current regulations, the final revenues for these two groups are different from the spot market price.

- Generating facilities subject to regulated prices or under contract to the OPA or OEFC are paid, or must reimburse, any difference between the average monthly revenue earned for their output on the spot market and their contract price or regulated price. This difference is transferred to consumers through the "Provincial Benefit" (or "Global Adjustment").

Example:

If the spot market price of electricity in a given period was 6 cents per kWh and the average contracted or regulated price (for generating facilities under contract or subject to regulated prices) was 5 cents per kWh, these generating facilities reimburse 1 cent per kWh, on average, to consumers for the electricity they supplied to the Ontario market during that period. This has the effect of reducing their average revenues from 6 cents per kWh to 5 cents per kWh. Conversely, if the spot market price was 4 cents per kWh, these generating facilities would be paid an additional 1 cent per kWh by consumers through the Provincial Benefit to bring their average revenues to 5 cents per kWh.

- Regulations require that OPG generation facilities subject to a revenue cap must reimburse any difference between the average revenue earned on their generation output and their revenue cap (average of 4.7 cents per kWh) to consumers on a quarterly basis. This payment is called the "OPG Rebate" (often also referred to as the OPG Non-Prescribed Asset Rebate, or "ONPA rebate"). For the first year, May 1, 2006 to April 30, 2007, revenues from this group of assets were capped at 4.6 cents per kWh². As of May 1, 2008, it was increased to 4.8 cents per kWh. An estimate of the OPG Rebate is included in RPP prices. This revenue cap will expire on May 1, 2009.

² Output sold by OPG through the OPA Pilot Auction (PA) is excluded from the revenue cap and instead is subject to a higher revenue cap of 4.8 cents per kWh as of May 1, 2008.

In some months, the average revenue from these OPG assets may be less than the revenue cap. According to the OPG Rebate payment terms³, the amount is effectively treated as a “credit” to be applied against future rebate amounts payable by OPG. There is no payment to OPG for months in which the average revenue from these OPG assets is less than the revenue cap. The OPG Rebate is a negative value in these months, representing a credit to be applied against future OPG Rebate payments.

The primary effect of these regulations is that the cost of supplying electricity to RPP consumers from the first two is fixed at a price that was expected to be below the average spot price for electricity. This reduces the average cost of supply and lessens consumers’ exposure to volatile spot market prices.

The RPP prices reflected in this report went into effect on May 1, 2008. These prices are based on forecasts of many factors. The most important determinants of forecast RPP supply costs (and RPP prices) are: 1) the relative amount of electricity from each of the three electricity supply sources; 2) the price of electricity purchased from the spot market; and, 3) the outstanding variance account balance at the end of the previous RPP period.

The *actual* supply cost for the RPP also depends on many factors but the most important are the same as those used to forecast the RPP price: 1) the relative amount of electricity coming from each of the three supply sources; and, 2) the price of electricity purchased from the spot market. If these factors differ from those in the forecast issued by the Board, the *actual* RPP supply cost will differ from the *forecast* RPP supply cost.

The difference between RPP revenues and the RPP supply cost is defined as the “RPP variance”. This report includes a chart that shows the forecasted and actual cumulative outstanding RPP variance at the beginning and the end of each quarter in the current RPP period and a table that shows the forecasted and actual cumulative outstanding RPP variance at the end of this quarter. For the purposes of this report, “*Initial RPP Period*” refers to April 1, 2005 through April 30, 2006, and “*Current RPP Period*” refers to May 1, 2008 through July 31, 2008. The four other periods are self-explanatory. Each period has different RPP prices as shown at the beginning of the appendix.

A summary table outlining the differences between the forecast and actual values is presented below. Revenue is discussed in Section 2 below. Supply Cost, which is the sum of Market Cost, Global Adjustment and OPG Rebate, is discussed in Sections 3 through 6. Net Revenue, the

³ The OPG Rebate payment is administered by the Independent Electricity System Operator (IESO) which operates under a licence issued by the OEB. The IESO’s licence provides details regarding the OPG Rebate payments and is available at:

<http://www.ieso.ca/imoweb/pubs/corp/Amd-Licence-IESO-20060912.pdf>

difference between Revenue and Supply Cost, is also discussed in Section 6. Section 7 discusses the Variance Account.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast \$ million	Actual \$ million	Difference \$ million	Forecast ¢/kWh	Actual ¢/kWh	Difference ¢/kWh
Revenue	\$807.8	\$788.7	-\$19.1	5.45	5.43	-0.02
Market Cost	-\$905.0	-\$803.0	\$102.0	-6.11	-5.53	0.58
Global Adjustment	-\$9.6	-\$86.1	-\$76.6	-0.06	-0.59	-0.53
OPG Rebate (Incl. Interest)	\$92.3	\$45.2	-\$47.1	0.62	0.31	-0.31
Stochastic Adjustment	-\$15.1	\$0.0	\$15.1	-0.10	0.00	0.10
Supply Cost	-\$837.3	-\$843.9	-\$6.6	-5.65	-5.81	-0.16
Net Revenue	-\$29.6	-\$55.2	-\$25.7	-0.20	-0.38	-0.18
Opening Balance	\$207.9	\$187.2	-\$20.7			
Net Revenue	-\$29.6	-\$55.2	-\$25.7	-0.20	-0.38	-0.18
Interest on Variance Account	\$1.4	\$1.0	-\$0.4	0.01	0.01	0.00
Adjustments	\$0.0	-\$17.5	-\$17.5	0.00	-0.12	-0.12
Closing Balance	\$179.7	\$115.5	-\$64.2			
Change in Variance Account	-\$28.2	-\$71.7	-\$43.5	-0.19	-0.49	-0.30

1. RPP Demand

Actual RPP demand was 2% lower than the forecast. However, RPP Demand as a percentage of the Total Market Allocated Quantity of Energy Withdrawn (AQEW), which represents total Ontario Demand excluding line losses, was above forecast.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast TWh	Actual TWh	Difference	
			Total	%
Total Market AQEW	36.9	35.8	-1.1	-3.1%
RPP Demand	14.8	14.5	-0.3	-2.0%
RPP Demand as a % of AQEW	40%	41%	0.4%	

2. RPP Unit and Total Revenue

The RPP revenues represent the total revenues generated from the two tiered pricing structure and from Time-of-Use rates. The rates effective during the current RPP period are shown in the following table.

Current RPP Period (May 1, 2008 through July 31, 2008)	Prices ¢/kWh
RPP Tier Prices	
Tier 1	5.0
Tier 2	5.9
Time of Use (TOU) Prices	
Off-Peak	2.7
Mid-Peak	7.3
On-Peak	9.3

RPP Revenue

Total RPP revenue was 2% lower than forecast, primarily because of lower than forecast RPP demand. Revenue per kWh was slightly lower than forecast because of higher than forecast consumption in Tier 1 relative to Tier 2.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
			Total	%
Total RPP Revenue (\$million)	\$807.8	\$788.7	-\$19.1	2.4%
Average Unit Revenue (¢/kWh)	5.45	5.43	-0.02	0.4%
Tier 1: Tier 2 Split	49.7% : 50.3%	51.7% : 48.0%		

3. Market Cost

Simple Average Spot Market Price

The table below shows the cost of electricity purchased from the spot market (without consideration of the Global Adjustment and OPG Rebate) for a hypothetical consumer that uses the same amount of electricity in each hour. Actual spot market prices were 12% lower than forecast. The reasons for this difference are discussed below. However, it should be noted that the month of May was a significant contributor to this difference as spot market prices were at a historic low at 3.5 cents per kWh.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast ¢/kWh	Actual ¢/kWh	Difference	
			¢/kWh	%
Simple Average Cost	5.64	4.94	-0.69	-12.3%

RPP-Load Weighted Average Spot Market Price

The table below shows the cost of electricity purchased from the spot market (without consideration of the Global Adjustment and OPG Rebate). However, in this case, the consumer is assumed to use electricity in the same manner as the average RPP consumer (i.e., higher electricity consumption during the peak periods, such as winter evenings, when prices are higher). The actual RPP load-weighted spot market price is 10% lower than forecast for the same reasons as the simple average spot market price.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
	¢/kWh	¢/kWh	¢/kWh	%
RPP-Load Weighted Average Cost	6.11	5.53	-0.58	-9.5%

Natural Gas Prices

Natural gas prices have a significant impact on electricity prices because natural gas is the fuel source for generating facilities that set the hourly spot market price for electricity much of the time. In general, if natural gas prices are higher than forecast, the cost of electricity from these generating facilities and the spot market price of electricity will be higher than forecast.

Natural gas prices for the current RPP period were significantly higher than forecast. Regression analysis shows that for every \$1/MMBtu increase in natural gas prices, Ontario electricity spot market prices increase by approximately 0.38¢/kWh. A \$2.51/MMBtu increase in gas prices would therefore be expected to increase electricity prices by approximately 0.95¢/kWh. Instead, electricity prices are 0.70¢/kWh lower than forecast. The higher gas prices were offset by other factors, as discussed below.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
	\$/MMBtu	\$/MMBtu	\$/MMBtu	%
Natural Gas Prices (\$USD)	9.49	12.01	2.51	26.5%

NB - 1 MMBtu (Million British Thermal Units) $\approx$ 1.055 GJ (Gigajoules) $\approx$ 27.5 m³ (cubic meters) of Natural Gas

Ontario Demand

Total Ontario demand was 2.4% lower than forecast.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
	TWh	TWh	TWh	%
Ontario Demand	37.7	36.8	-0.93	-2.4%

Lower demand tends to reduce market prices; regression analysis shows that a difference of this magnitude should reduce prices by approximately 0.25¢/kWh.

Weather, Cooling Degree Days (>24°C)

Degree days for a given day represent the number of Celsius degrees that the mean temperature is above or below a given base. This comparison shows the number of cooling degree days above 24°C per month in the city of Toronto (Lester B. Pearson Int'l Airport). If the temperature is less than or equal to 24°C, then the number will be zero.⁴ Values above 24°C are used to estimate the cooling requirements of residential consumers. For example, if the mean daily temperature is 30°C, the number of cooling degree days would be 30°C – 24°C = 6.

⁴ 18°C is another common base temperature used to determine cooling degree days. Navigant Consulting and the OEB share the view that 24°C is more representative of when residential consumers use air conditioning.

During current RPP period, the number of cooling degree days marginally exceeded normal conditions.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast <i>days</i>	Actual <i>days</i>	Difference	
			<i>Days</i>	<i>%</i>
Cooling Degree Days (>24 °C)	12	13	1	7.3%

Weather, Heating Degree Days (>15°C)

During the winter heating season, *heating* degree days replace *cooling* degree days as an important factor driving electricity demand and spot market prices. Heating degree days, calculated in the same manner as cooling degree days, indicate the heating requirements of consumers in Ontario.

This comparison shows the number of heating degree days below 15°C in the city of Toronto (Lester B. Pearson Int'l Airport). If the temperature is higher than or equal to 15°C, then the number will be zero. The number of heating degree days for the current RPP period is 4% lower than expected or what would be considered "normal".

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast <i>days</i>	Actual <i>days</i>	Difference	
			<i>Days</i>	<i>%</i>
Heating Degree Days (<15°C)	115	110	-5	-4.1%

Hydroelectric Generation

Ontario experienced a wet winter in 2007/2008, and a very wet spring and summer in 2008. As a result, the output of Ontario's hydroelectric plants has been well above normal. Additional hydroelectric generation tends to reduce the need for more expensive generation, such as coal and gas, and thus to reduce prices. Hydroelectric generation was 17% higher than forecast. Regression analysis shows that a difference of this magnitude should reduce prices by approximately 1.30¢/kWh.

The combined affects of higher gas prices, lower Ontario demand, and higher hydroelectric generation should reduce average electricity prices by 0.60¢/kWh, based on regression analysis. The actual difference between forecast and actual prices was 0.70¢/kWh.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast <i>TWh</i>	Actual <i>TWh</i>	Difference	
			<i>TWh</i>	<i>%</i>
Total Hydroelectric Output	9.2	10.8	1.6	17.1%

4. Global Adjustment

The Global Adjustment (GA) represents the difference between the total payments made to certain contracted or regulated generators/demand management projects, and any offsetting market revenues.

The Global Adjustment is treated as a credit against market prices, so an “increase” in the GA means lower consumer prices and a “decrease” means higher consumer prices. The GA in the current RPP period was forecast to be negative (i.e., it was forecast to be a cost to the consumer).

Several of the components of the Global Adjustment are directly affected by the market price. In particular, as market prices go down, settlement payments from OPG nuclear, OPG prescribed hydro generation to the Ontario Power Authority decrease and contractual payments from the OPA to several of the province's natural gas generators increase. As noted above, market prices were 0.70¢/kWh lower than forecast. Regression analysis shows that this should reduce the Global Adjustment by approximately 0.40¢/kWh (where a reduction in the Global Adjustment means an increase in consumer prices).

The Global Adjustment is also affected by the volume of nuclear and hydroelectric generation. The two main supply sources that contribute to the Global Adjustment are OPG’s nuclear generating stations and OPG’s regulated (baseload) hydroelectric generating stations. As shown below, output from these plants was 9% and 6% respectively, lower than forecast. This can be expected to further reduce the Global Adjustment.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
	TWh	TWh	TWh	%
OPG's Nuclear Output	11.7	10.7	-1.0	-8.7%
OPG's Baseload Hydroelectric Output	5.0	4.7	-0.3	-5.5%
<i>Total</i>	16.7	15.4	-1.3	-7.7%

NB - 1 TWh = 1 billion kWh and is roughly equivalent to the electricity used by 100,000 homes in a year.

The table below shows the forecast versus actual Global Adjustment.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	Forecast	Actual	Difference
	\$ million	\$ million	\$ million	¢/kWh	¢/kWh	¢/kWh
Global Adjustment	-\$9.6	-\$86.1	-\$76.6	-0.06	-0.59	-0.53

The forecast value of the Global Adjustment is included in current RPP prices. Unlike the spot market price, the Global Adjustment does not vary with time: it has the same unit value for all Ontario electricity consumers whether they consume more electricity during “on-peak” (e.g., daytime) periods when spot market prices are higher or they consume more electricity during “off-peak” (e.g., night) periods when spot market prices are lower.

5. OPG Rebate

The two supply sources that pay the OPG Rebate are OPG’s coal-fired generating plants and OPG’s unregulated hydroelectric generating plants.

The output from OPG’s coal-fired facilities is strongly correlated with demand in Ontario: higher demand results in greater output from OPG’s coal-fired facilities, while lower demand leads to less output from the same facilities. For May through July 2008, actual Ontario demand was

2.4% below the forecast level, and coal-fired output was 6% lower than forecast. OPG's unregulated hydroelectric output comes from "peaking" capacity which generally operates only during periods of high demand; the remainder is "baseload" capacity. The actual output of these generators was 24% higher than the output forecast by the Board.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	
	TWh	TWh	TWh	%
OPG's Coal Fired Output	6.3	5.9	-0.4	-6.2%
OPG's Unregulated Hydroelectric Output	4.2	5.2	1.0	24.4%
<i>Total</i>	<i>10.5</i>	<i>11.1</i>	<i>0.6</i>	<i>6.0%</i>

NB - 1 TWh = 1 billion kWh and is roughly equivalent to the electricity used by 100,000 homes in a year.

Higher-than-forecast generation should mean a higher-than-forecast OPG Rebate. However, the OPG rebate is very sensitive to market prices: lower market prices mean a lower rebate. Average market prices were 0.7¢/kWh lower than forecast. The effect of this more than offset the impact of higher generation, resulting in a decrease in the OPG Rebate compared to the forecast.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast	Actual	Difference	Forecast	Actual	Difference
	\$ million	\$ million	\$ million	¢/kWh	¢/kWh	¢/kWh
OPG Rebate	\$230.7	\$103.7	-\$127.0	0.62	0.31	-0.31

The forecast OPG Rebate is included in current RPP prices as a credit. A positive OPG Rebate reduces consumer prices. A negative sign on the OPG Rebate would mean that the estimated OPG revenues are less than the revenue cap for the current RPP period⁵, and would increase consumer prices.

Under Government regulations, the revenue cap for the non-prescribed OPG assets increased from 4.7 cents per kWh to 4.8 cents per kWh on May 1, 2008 for the subsequent 12 month period.

6. Net Revenue

The RPP supply cost represents the cost and amount of electricity supplied to RPP consumers taking into account the three factors discussed above (market cost, Global Adjustment and OPG Rebate).

Stochastic Adjustment

All of the components of the forecast supply cost are based on a forecast of the HOEP. However, actual prices and actual demand cannot be predicted with absolute certainty. To take into

⁵ The OPG Rebate payment is made on a quarterly basis but there is no actual payment to OPG for months in which the average revenue from these OPG assets is less than the revenue cap. The OPG Rebate will be shown as a negative value to represent the magnitude of the credit to be applied against future OPG Rebate payments. If the cumulative OPG Rebate is below the revenue cap for an entire quarter, the difference is carried forward and applied as a credit to offset rebate payments for future quarterly periods.

account the volatility that exists amongst forecast parameters, a “stochastic adjustment” is used to reflect the greater likelihood of negative or unfavourable variances than favourable variances.⁶ These unfavourable variances not only have an effect on the market priced component of the RPP supply cost, but also on the Global Adjustment and OPG Rebate components as well.

The necessary stochastic adjustment was determined to be -\$15.1 million or 0.10¢/kWh and is included in the price paid by RPP consumers to ensure that the “expected” variance at the end of the RPP year is zero.

RPP Supply Cost

With the stochastic adjustment taken into consideration, the total *unit* RPP supply cost was 1% higher than the Board’s forecast, because the impact of the lower than forecast spot prices was more than offset by changes in the Global Adjustment and OPG Rebate. The actual *total* RPP supply cost was 1% higher than forecast due to the combination of lower than forecast RPP demand and higher than forecast RPP *unit* supply cost.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast \$ million	Actual \$ million	Difference \$ million	Forecast ¢/kWh	Actual ¢/kWh	Difference ¢/kWh
Market Cost	-\$905.0	-\$803.0	\$102.0	-6.11	-5.53	0.58
Global Adjustment	-\$9.6	-\$86.1	-\$76.6	-0.06	-0.59	-0.53
OPG Rebate (Incl. Interest)	\$92.3	\$45.2	-\$47.1	0.62	0.31	-0.31
Stochastic Adjustment	-\$15.1	\$0.0	\$15.1	-0.10	0.00	0.10
<i>Supply Cost</i>	-\$837.3	-\$843.9	-\$6.6	-5.65	-5.81	-0.16

Net Revenue

Net revenue was lower than forecast due to lower than forecast revenue and higher than forecast supply cost, as previously mentioned.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast \$ million	Actual \$ million	Difference \$ million	Forecast ¢/kWh	Actual ¢/kWh	Difference ¢/kWh
Revenue	\$807.8	\$788.7	-\$19.1	5.45	5.43	-0.02
Supply Cost	-\$837.3	-\$843.9	-\$6.6	-5.65	-5.81	-0.16
<i>Net Revenue</i>	-\$29.6	-\$55.2	-\$25.7	-0.20	-0.38	-0.18

⁶ For example, since nuclear generation plants tend to operate at capacity factors between 80% and 90%, these facilities are more likely to “under-generate” (due to unscheduled outages) than to “over-generate” (i.e., there is 10-20% upside versus 80-90% downside on the generator output). Similarly, during unexpectedly cold or hot weather, prices tend to be higher than expected as does RPP consumers’ demand for electricity.

7. RPP Variance Account⁷

The difference between the forecast and the actual RPP net revenue is accumulated and tracked in a variance account (held by the OPA) to be either *credited* to RPP consumers (if a positive variance) or *charged* to RPP consumers (if a negative variance). In establishing the RPP prices that went into effect on May 1, 2008, the outstanding variance was forecast to be positive \$207.9 million by the end of April 2008. The Board set the Variance Clearance Adjustment Factor at a credit of 0.352 cents per kWh in order to bring the variance balance to zero by April 2009.

Opening Balance

The opening balance of the variance account used in the forecast is itself a forecast. At the time that the forecast was done, the March 31, 2008 closing balance was known, but the April 30, 2008 closing balance (which becomes the May 1, 2008 opening balance) had to be estimated. The estimate of \$207.9 million used in determining rates was approximately \$21 million higher than the actual opening balance of \$187.2 million, largely due to differences between actual and forecast OPG Rebate payments during the month of April.

Interest on Variance Account

Positive balances (as they are currently) in the variance account earn interest. If the balance was negative, interest would be charged. The actual interest earned was 26% below the forecast, due to the lower-than-forecast balances in the variance account throughout the current RPP period.

Adjustments

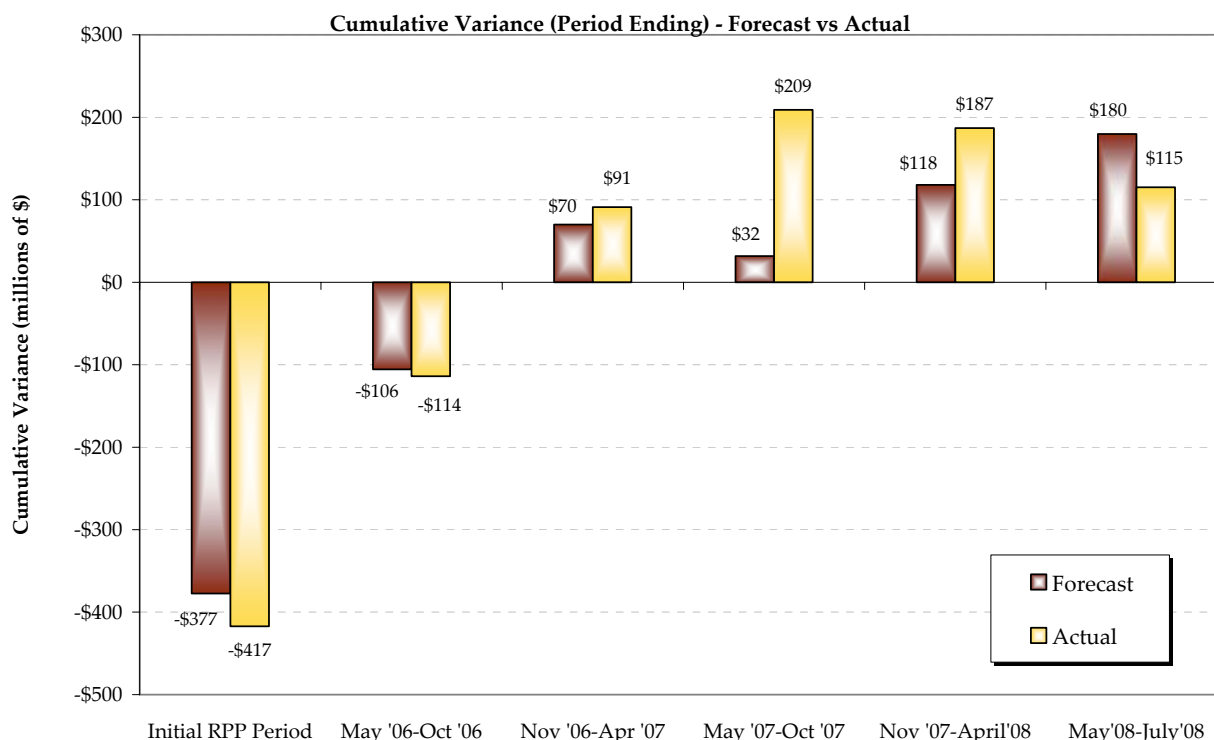
From time to time, the variance account statement provided by the IESO to the OEB restates amounts for prior RPP periods (i.e., before May 1, 2008). For the current RPP period, these changes amounted to a decrease in the outstanding balance of \$17.5 million. The accumulated balance, excluding interest, was shown as \$205.7 million in the April 30, 2008 IESO statement, but the accumulated balance up to April, again excluding interest, was shown as \$188.3 million in the July 31, 2008 IESO statement.

Most of these adjustments appear to relate to the OPG Rebate. For example, there is a three month lag before the actual OPG Rebate information is known by the IESO.

⁷ The RPP variance includes interest incurred (or earned) by the OPA for balances held in the variance account, as required by the Board's RPP Manual.

Current RPP Period (May 1, 2008 through July 31, 2008)	Forecast \$ million	Actual \$ million	Difference \$ million	Forecast ¢/kWh	Actual ¢/kWh	Difference ¢/kWh
Opening Balance	\$207.9	\$187.2	-\$20.7			
Net Revenue	-\$29.6	-\$55.2	-\$25.7	-0.20	-0.38	-0.18
Interest on Variance Account	\$1.4	\$1.0	-\$0.4	0.01	0.01	0.00
Adjustments	\$0.0	-\$17.5	-\$17.5	0.00	-0.12	-0.12
Closing Balance	\$179.7	\$115.5	-\$64.2			
Change in Variance Account	-\$28.2	-\$71.7	-\$43.5	-0.19	-0.49	-0.30

The chart below presents the forecast and actual variance outstanding in the current RPP period and at the end of each of the previous RPP periods.



The positive \$115.2 million net RPP variance corresponds to the “Net Variance Account Balance” identified on the OEB’s Final RPP Variance Settlement Amount web page.⁸ This value is taken to be the surplus amount after the estimated accrued OPG Rebate (attributable to RPP consumers) is taken into account. The difference between the forecast and actual net RPP variance at the end of the RPP period will be used to reset the Variance Clearance Adjustment Factor when RPP prices are next adjusted. RPP price adjustments are set by the Board every six months, if needed, effective November 1st and May 1st.

⁸ http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_regulatedpriceplan_variance.htm

APPENDIX A –KEY VARIANCE DRIVERS, MONTHLY VALUES

Presented in this appendix are the monthly values for the factors discussed in the body of this document. As well, one additional summary table is provided for RPP total demand. "Initial RPP Period" refers to the thirteen month period from April 1, 2005 through April 30, 2006.

The table below shows all of the RPP two-tier prices since the RPP was introduced. All of the monthly values in this appendix correspond to those different RPP prices.

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07- Apr'08	Current RPP Period
Tier 1	5.0	5.8	5.5	5.3	5.0	5.0
Tier 2	5.8	6.7	6.4	6.2	5.9	5.9

1. Spot Market Prices and Key Drivers of Spot Prices

Simple Average Spot Market Price

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	5.5	6.0	6.0	5.7	5.4	5.9	5.2	5.8	5.6
Actual	6.5	4.5	4.9	4.6	4.9	3.5	5.7	5.7	4.9
% Difference	18%	-25%	-18%	-19%	-9%	-41%	10%	-2%	-13%

RPP Load Weighted Average Spot Market Price⁹

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	6.0	6.6	6.4	6.2	5.8	6.3	5.7	6.3	6.1
Actual	7.0	5.0	5.2	5.0	5.1	3.7	6.3	6.4	5.5
% Difference	17%	-24%	-19%	-19%	-12%	-41%	11%	2%	-10%

RPP Demand

TWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	81.0	37.2	37.8	35.4	34.7	4.7	4.9	5.3	14.8
Actual	81.1	34.6	37.1	31.0	34.5	4.5	4.9	5.1	14.5
Difference	0%	-7%	-2%	-12%	-1%	-4%	0%	-4%	-2%

Natural Gas Price

\$/MMBtu	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	\$7.08	\$7.84	\$9.67	\$8.01	\$8.05	\$9.43	\$9.48	\$9.56	\$9.49
Actual	\$8.89	\$6.14	\$7.37	\$6.85	\$8.73	\$11.69	\$12.83	\$11.53	\$12.01
% Difference	25%	-22%	-24%	-14%	7%	24%	35%	20%	26%

Weather, Cooling Degree Days (> 24 °C)

> 24 °C	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Normal	17	17	0.0	17	0	0	2	10	12
Actual	81	52	0.0	45	0	0	7	5	13
% Difference	376%	206%	0%	165%	0%	0%	250%	-50%	8%

⁹ Actual values are calculated based on LDC reported monthly RPP revenues and costs for RPP supply which was provided by the IESO. The LDCs report these RPP revenues and costs before month-end, and are based on an estimate for the current month plus any reconciliation required for prior submissions. The forecast values were developed based on an estimate of the consumption pattern for RPP consumers.

Weather, Heating Degree Days (< 15 °C)

< 15 °C	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Normal	3,517	346	2,892	359	2,892	99	15	1	115
Actual	2,894	291	2,603	154	2,700	105	5	0	110
% Difference	-18%	-16%	-10%	-57%	-7%	6%	-67%	-100%	-4%

2. Generators that Contribute to the Provincial Benefit

The tables below show the total output from OPG's regulated generation facilities. However the regulation specifies that any aggregate output above a threshold of 1,900 MW for OPG's regulated hydroelectric generation facilities in any given hour is eligible to receive the spot price, and hence does not contribute to the Provincial Benefit.

OPG Nuclear Output

TWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	50.6	22.2	25.8	23.6	23.5	3.4	4.0	4.4	11.7
Actual	49.5	24.3	21.7	21.7	24.2	3.2	3.7	3.8	10.7
% Difference	-2%	9%	-16%	-8%	3%	-6%	-8%	-14%	-9%

OPG Regulated Hydroelectric Output

TWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	19.7	9.8	9.6	9.8	9.7	1.7	1.6	1.7	5.0
Actual	19.3	8.9	9.5	8.6	9.0	1.6	1.5	1.6	4.7
% Difference	-2%	-9%	-1%	-12%	-7%	-6%	-6%	-6%	-6%

Global Adjustment

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	0.2	0.4	0.2	0.0	(0.2)	0.1	(0.3)	0.0	(0.1)
Actual	0.7	(0.5)	(0.3)	(0.5)	(0.5)	(1.5)	0.0	(0.3)	(0.6)
Difference	0.5	(0.9)	(0.5)	(0.5)	(0.3)	(1.6)	0.3	(0.3)	(0.5)

3. Generators that Pay the OPG Rebate

The tables below show the total output from OPG's non-prescribed generation facilities. However, under the existing regulation, approximately 15 percent of the total output from these facilities is not subject to the revenue cap (and rebate).

OPG Coal-fired Output

TWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	36.2	14.5	16.5	13.9	16.5	1.9	2.1	2.3	6.3
Actual	30.0	13.3	13.8	13.8	13.1	1.4	2.2	2.3	5.9
% Difference	-17%	-8%	-16%	-1%	-21%	-26%	5%	0%	-6%

OPG Unregulated (Non-prescribed) Hydroelectric Output

TWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	19.7	7.2	6.9	7.2	7.0	1.7	1.4	1.1	4.2
Actual	15.7	5.7	7.5	6.2	8.0	2.0	1.6	1.7	5.2
% Difference	-20%	-21%	9%	-14%	14%	18%	14%	55%	24%

OPG Rebate

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	0.5	0.5	0.6	0.5	0.45	0.67	0.52	0.69	0.62
Actual	0.5	0.1	0.2	0.1	0.16	(0.21)	0.48	0.55	0.31
Difference	0.0	(0.4)	(0.4)	(0.4)	(0.3)	(0.90)	0.00	(0.10)	0.31

4. RPP Unit and Total Revenues

The RPP unit revenue for May 2008 onwards is calculated as the weighted average price of electricity consumed by RPP consumers at the two tiered prices (5.0 and 5.9 cents per kWh) less the Variance Clearance Adjustment Factor of -0.352 cents per kWh. The actual unit revenue has been essentially the same as the Board's forecast.

cents per kWh	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	5.3	5.8	5.7	5.9	5.4	5.4	5.5	5.5	5.5
Actual	5.4	5.7	5.8	5.9	5.4	5.4	5.4	5.4	5.4
% Difference	2%	-2%	2%	0%	0%	0%	-2%	-2%	-2%

The differential between *forecast* and *actual* RPP demand combined with the differential between *forecast* and *actual* RPP unit revenues results in the difference between the *forecast* and *actual* total RPP revenue.

million \$	Initial RPP Period	May '06- Oct '06	Nov '06- Apr '07	May'07-Oct'07	Nov'07-Apr'08	May'08	June'08	Jul'08	Current Period
Forecast	\$4,300	\$2,158	\$2,170	\$2,070	\$1,880	\$255	\$265	\$288	\$808
Actual	\$4,358	\$1,991	\$2,141	\$1,812	\$1,860	\$247	\$266	\$276	\$789
% Difference	1%	-8%	-1%	-12%	-1%	-3%	0%	-4%	-2%