GROSS REVENUE CHARGE – REGULATED HYDROELECTRIC

1.0 PURPOSE
This evidence describes and presents a summary of the gross revenue charges (“GRC”) that are imposed on OPG pursuant to legislative and regulatory requirements.

2.0 GROSS REVENUE CHARGE ON HYDROELECTRIC GENERATING STATIONS
The GRC refers to the taxes and charges that, as of January 2001, are imposed specifically on owners of hydroelectric generating stations pursuant to section 92.1 of the Electricity Act, 1998. The GRC consists of two components:
1. A property tax component payable to the Minister of Finance or the Ontario Electricity Financial Corporation.
2. A water rental component payable to the Minister of Finance by all holders of water power leases.

Each of the six regulated hydroelectric stations are subject to the GRC property tax component. Four of the regulated hydroelectric stations, Sir Adam Beck I, Sir Adam Beck II, Sir Adam Beck Pump Generating Station and R.H. Saunders, are subject to water rental charges. Since the land and reservoirs associated with operation of the DeCew Falls stations are not subject to water power leases, the DeCew Falls stations are not subject to the GRC water rental component charge, but are subject to a charge paid to the St. Lawrence Seaway Management Corporation as described below.

Ontario Regulation 124/02 under the Electricity Act, 1998 defines the methodology for calculating the GRC. For the period January 1, 2001 to December 31, 2007, the GRC has been determined by multiplying the station’s annual generation (described below) by a legislatively deemed price of $40/MWh and by the appropriate GRC rate (described below). For the purposes of this Application, the current price of $40/MWh has been assumed to apply throughout the proposed test period. However, should the Province of Ontario increase the deemed price of $40/MWh or the GRC rates used for the GRC calculation during the test period, OPG may need to seek an accounting order from the OEB.
Ontario Regulation 124/02 also defines how a station’s annual generation is determined for purposes of calculating GRC. A station’s “annual generation for a year is the amount of electricity generated by the station during the year, other than electricity that is consumed directly in the generation of electricity at the station without being conveyed through a transmission or distribution system”. Ontario Regulation 124/02 also prescribes the methodology for determining a station’s annual generation when such station has used water associated with another station or has allowed another station to use the water normally associated with it (see Ex. G1-T1-S1 for a discussion of Water Transactions).

The GRC property tax component charge consists of graduated tax rates through four tiers of production and applies to each of the six regulated hydroelectric generating stations. The GRC property component charge is assessed at 2.5 percent on gross revenue from the first 50 gigawatt-hours of annual generation from the generating station, at 4.5 percent on gross revenue from the next 350 gigawatt-hours (from 50 to 400 GWh), at 6 percent on gross revenue from the next 300 gigawatt-hours (from 400 to 700 GWh), and at 26.5 percent on gross revenue from annual generation in excess of 700 gigawatt-hours.

The GRC water rental component charge is assessed at the fixed rate of 9.5 percent on the gross revenue calculated from annual generation determined for each of Sir Adam Beck I, Sir Adam Beck II, Sir Adam Beck Pump Generating Station, and R.H. Saunders.

Rates applicable for the GRC property and water rental components are summarized in the following chart:
The GRC property tax component charges applicable to the regulated hydroelectric stations are payable to the Ontario Electricity Financial Corporation. Pursuant to section 3 (1) of the Assessment Act (Ontario), land, buildings and structures used in connection with a hydroelectric generating station are exempt from taxation under the Assessment Act (Ontario), including those held by OPG. However, property tax on land and buildings not used in connection with the hydroelectric generating stations is paid by OPG pursuant to the provisions of the Assessment Act (Ontario).

The GRC water rental component charges applicable to the four regulated hydroelectric sites, which are operated pursuant to water power leases (Sir Adam Beck I, II, and Pump Generating Station, and R.H. Saunders), are payable to the Ontario Minister of Finance, with the exception that a portion of the GRC water rental component payable with respect to the Sir Adam Beck Complex is payable to the Niagara Parks Commission pursuant to O. Reg. 135/02 under the Electricity Act, 1998.

Ontario Regulation 124/02 also provides for an exemption by way of deduction in the calculation of gross revenue. Eligible capacity associated with new, redeveloped, or upgraded hydroelectric generating stations may be subject to a deduction as described in Ontario Regulation 124/02.
As previously identified, the land and reservoirs associated with the operation of the DeCew plants are not held pursuant to water power leases, and are therefore not subject to the GRC water rental component charge. However, charges are incurred by OPG under an agreement with the St. Lawrence Seaway Management Corporation. Water used for power generation at the DeCew plants is withdrawn from the Welland Ship Canal at Allanburg. OPG compensates the St. Lawrence Seaway Management Corporation for its operational costs of conveying water from Lake Erie through the St. Lawrence Seaway Management Corporation’s canal to the Allanburg intakes. The amount of compensation is not determined based on the volume of water withdrawn, but rather is determined by calculating a theoretical value for the water used at DeCew Falls. This value of water is computed based on the incremental difference in theoretical production for both Niagara River (Sir Adam Beck) stations and DeCew Falls stations combined versus the Niagara (Sir Adam Beck) stations alone, using the total Lake Erie outflow available for power generation purposes. A cost factor is applied to convert the value of water in terms of production to monetary terms. As per the agreement, annual costs associated with the St. Lawrence Seaway Management Corporation conveyance charges can vary significantly (ranging from about $1M to $8M), but are expected to be in the order of $5M/year from 2007 - 2009. The St. Lawrence Seaway Management Corporation costs have been included with the Niagara Plant Group’s GRC totals in Ex. F1-T4-S1 Table 1.

All aspects of GRC payments made by OPG to the Province of Ontario are governed by legislation or regulation. As such, OPG has no control over the GRC charges associated with its regulated hydroelectric facilities.