GROSS REVENUE CHARGE –
REGULATED HYDROELECTRIC

1.0 PURPOSE
This evidence describes the gross revenue charges ("GRC") that OPG, as a hydroelectric generator, is required to pay pursuant to legislative and regulatory requirements.

2.0 OVERVIEW
The forecast GRC for the regulated hydroelectric facilities is $257.1M and $252.2M in 2011 and 2012 respectively and forms part of the test period revenue requirement. Ex.. F1-T4-S1, Table 1 presents the GRC for the years 2007 - 2012. Section 3.0 below describes what the GRC is, sets out its statutory authority and sets out how the amounts payable are calculated.

3.0 GROSS REVENUE CHARGE ON HYDROELECTRIC GENERATING STATIONS
The GRC refers to the taxes and charges that, as of January 2001, are required to be paid by owners of hydroelectric generating stations under section 92.1 of the Electricity Act, 1998.

The GRC consists of two components:
• A property tax component payable to the Minister of Finance or the OEFC.
• A water rental component payable to the Minister of Finance by all holders of water power leases.

All aspects of GRC payments made by OPG to the Province are governed by legislation or regulation. As such, OPG does not control the GRC charges associated with its regulated hydroelectric facilities.

Each of OPG’s six regulated hydroelectric stations is 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 ("PGS") 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. However, water conveyance charges are paid to
the St. Lawrence Seaway Management Corporation per the terms of lease agreements with
the St. Lawrence Seaway Management Corporation and as described in greater detail later
in this section.

O. Reg. 124/02 (amended by O. Reg. 9/10, filed January 20, 2010) under the *Electricity Act*,
1998 defines the methodology for calculating the GRC. The GRC is determined by
multiplying the station’s annual generation by a deemed price of $40/MWh and by the
appropriate GRC rate (described below).

O. Reg. 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”. O. Reg. 124/02 also prescribes the methodology for determining a
station’s annual generation when that 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 tax component charge is assessed at 2.5 per cent on gross revenue from the
first 50 GWh of annual generation from the generating station, at 4.5 per cent on gross revenue from the next 350 GWh (from 50 to 400 GWh), at 6 per cent on gross revenue from
the next 300 GWh (from 400 to 700 GWh), and at 26.5 per cent on gross revenue from annual generation in excess of 700 GWh.

The GRC water rental component charge is assessed at the fixed rate of 9.5 per cent on the
gross revenue calculated from annual generation determined for each of Sir Adam Beck I, Sir
Rates applicable to the GRC property and water rental components are summarized in the following chart:

<table>
<thead>
<tr>
<th>Station Production (GWh/yr)</th>
<th>Water Rental Rate (%)</th>
<th>Property Graduated Rate (%)</th>
<th>Total GRC Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 50</td>
<td>9.5</td>
<td>2.5</td>
<td>12.0</td>
</tr>
<tr>
<td>50 – 400</td>
<td>9.5</td>
<td>4.5</td>
<td>14.0</td>
</tr>
<tr>
<td>400 – 700</td>
<td>9.5</td>
<td>6.0</td>
<td>15.5</td>
</tr>
<tr>
<td>&gt; 700</td>
<td>9.5</td>
<td>26.5</td>
<td>36.0</td>
</tr>
</tbody>
</table>

The GRC property tax component charges applicable to the regulated hydroelectric stations are payable to the OEFC. Under 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 under the provisions of the *Assessment Act* (Ontario).

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

O. Reg. 124/02 also provides for a deduction in the calculation of gross revenue. Eligible capacity associated with new, redeveloped, or upgraded hydroelectric generating stations may be able to claim a deduction as described in O. Reg. 124/02, resulting in lower GRC charges.
As previously identified, the land and reservoirs associated with the operation of the DeCew plants are not held pursuant to water power leases. They 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 conveying water from Lake Erie through the St. Lawrence Seaway Management Corporation’s canal to the Allanburg intakes. A Supplemental Agreement to the lease went into effect July 1, 2008. Under the terms of the Supplemental Agreement, water conveyance charges are determined based on the actual monthly average DeCew diversion flow. St. Lawrence Seaway Management Corporation water conveyance charges are expected to range between $5M to $6M annually in 2011 and 2012. 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.