

STRATEGIC OBJECTIVE 3

Plan and design procurement processes and enter into procurement contracts for generation resources to meet the requirements identified in the IPSP and to embed “best-in-class” contracting practices that support investment in necessary infrastructure and contribute to a sustainable electricity system

The Electricity Resources division comprises the Procurement and Contract Management groups. Until such time as the IPSP and the OPA’s procurement processes have been approved by the OEB, the Procurement group shall launch procurements for generation resources solely through Government Directives (“Directive(s)”) received from the Minister of Energy and Infrastructure (“the Minister”).

To meet this strategic objective, the Procurement and Contract Management groups will undertake the following strategic initiatives in 2009:

- Procure identified generation resources using OPA procurement processes and contracts that facilitate procurement of generation resources and effectively allocate risks between electricity users and generation developers, including standard offer programs;
- Manage contracts with successful proponents from the procurement process through permitting and construction phases, and financially settle with counterparties that have achieved commercial operation.

1.0 ACTIONS TO ACHIEVE STRATEGIC OBJECTIVE 3

Initiative 1 – Procurement

The OPA facilitates new investment in generation resources when such investments do not arise within the electricity market itself. These new resources are facilitated via OPA contracts with generation developers.

The generation procurement contracts effectively allocate risks between electricity users and generators by ensuring efficient participation in the electricity markets. For example, generators under contract with the OPA that can be dispatched in accordance with the

1 IESO's Market Rules are contractually incented to operate in accordance with market
2 signals through the 'deemed dispatch' model. Upon specific pricing conditions in the
3 energy markets, the generator is 'deemed' to have been dispatched to generate electricity.
4 The net revenues calculated based on this imputed production are deducted from the
5 contracted monthly Net Revenue Requirement (or Fixed Capacity Payment) to determine
6 either a support payment to the generator, or a revenue sharing payment from the
7 generator. These incentives ensure that the generators are operating efficiently to meet
8 market needs, more effectively balancing electricity supply with demand.

9 On August 29, 2007, in conjunction with the IPSP, the OPA submitted a Procurement
10 Process for OEB approval. This Procurement Process outlines the steps the OPA will take
11 to procure identified conservation and generation resources in the IPSP. The Procurement
12 Process identifies three main procurement types to be used to procure conservation and
13 generation resources: competitive procurement; standard offer procurement; and non-
14 competitive procurement. A full description of the Procurement Process is provided in the
15 IPSP evidence.

16 The following describes the generation resources which will be procured, or for which
17 procurement work will have begun, in 2009.

18 A significant portion of the projects to be procured in 2009 will be renewable energy
19 projects. In 2008, the OPA launched the RES III procurement for 500 MW, which is
20 scheduled to be complete by the end of 2008.

21 On December 20, 2007, the OPA was directed to conclude Hydroelectric Supply
22 Agreements ("HESAs") with Ontario Power Generation for several of their existing facilities
23 and the expanded capacity at these facilities. Several of these were concluded in 2008, as
24 discussed in 2008 Results, below. In 2009, the OPA is scheduled to execute a HESA with
25 OPG for their Lower Mattagami facility (approximately 450 MW). Execution of the Lower
26 Mattagami HESA will conclude the Ministerial Directive.

1 Under the Renewable Energy Standard Offer Program (the “RESOP”) and the Clean
2 Energy Standard Offer Program (the “CESOP”), standardized procurement processes
3 provide the opportunity for smaller scale generators to contribute to the electricity supply for
4 the province.

5 The OPA launched the RESOP in 2007 in response to the March 21, 2006 Directive. The
6 RESOP facilitates development of small renewable energy generation projects (e.g., wind,
7 hydroelectric, biomass and photovoltaic) under 10 MW that are connected to distribution
8 systems. RESOP projects that are less than or equal to 500 kW completed as a result of
9 this program contribute to conservation savings targets, as discussed in greater detail in
10 Exhibit B-2-1. RESOP projects greater than 500 kW contribute to renewable energy
11 procurement targets. As of August 31, 2008, over 360 contracts have been executed for a
12 total RESOP capacity of approximately 1,500 MW. In 2009, the OPA will continue to
13 facilitate the procurement of small renewable energy projects and will undertake
14 appropriate changes as necessary to improve how these resources are procured.

15 The OPA is scheduled to launch the CESOP in the fourth quarter of 2008. In response to
16 the June 14, 2007 Directive, the CESOP will facilitate development of small clean energy
17 generation projects (e.g., natural-gas, by-products, district energy). All projects less than or
18 equal to 10 MW under the CESOP contribute to conservation, within the category of
19 “customer-based generation”. Throughout 2009, the OPA will facilitate the program by
20 reviewing the CESOP applications and signing contracts using a similar process to the
21 RESOP.

22 In addition to RESOP and CESOP, the OPA has been developing additional standard offer
23 programs. The Northern Hydroelectric Initiative (“NHI”), for small, transmission-connected
24 waterpower projects in Northern Ontario, is expected to launch in the fourth quarter of
25 2008. The OPA will also be participating in the Energy from Waste (“EFW”) Pilot or
26 Demonstration Project (“PDP”) through procurement of the project’s net electricity output.
27 This initiative, driven by the Ministry of Environment, will assess the merit of EFW
28 technologies and assist in the development of improved technologies, as well as facilitate

1 the testing and evaluation of EFW technologies to obtain necessary information on
2 environmental impacts.

3 The OPA will also work closely in 2009 with other Ontario electricity agencies and key
4 stakeholders in developing new and improved mechanisms to procure renewable energy
5 supply.

6 On August 18, 2008, a Directive was issued to procure Southwest Greater Toronto Area
7 ("SWGTA") supply resources. This procurement is for a generating facility with an
8 approximate capacity of 850 MW, and is expected to be complete in June, 2009.

9 In 2008, the second procurement for Combined Heat and Power ("CHP") supply resources
10 was launched. The second phase was launched to provide additional capacity in response
11 to the June 15, 2005 Directive. In addition, on April 10, 2008, a Directive was received to
12 procure up to 100 MW of CHP Renewable Cogeneration projects greater than 10 MW in
13 size. Both of these procurements are expected to be completed in the first quarter of 2009.

14 In order to execute and complete procurement processes, the Generation Procurement
15 group will form project teams (consisting of OPA staff and external consultants as
16 appropriate) to: develop applicable procurement documents, such as Requests-for-
17 Proposals ("RFPs"), program rules, contracts, etc.; define procurement schedules; and
18 manage all procurement obligations. A key component of this process is stakeholder
19 consultation, as discussed in Exhibit B-5-1. Stakeholders will be consulted prior to
20 finalization of procurement documents.

21 **Initiative 2 – Procurement contract management**

22 The OPA is the counterparty to a series of conservation and generation resource contracts
23 and will soon be the counterparty to additional generation resource contracts, which arise
24 from:

- 25 • Ministry of Energy and Infrastructure ("Ministry") -initiated RFPs for new
26 conservation and generation resources (e.g., RES I, RES II, Clean Energy Supply
27 RFP);

- 1 • Negotiation between the Ministry and certain counterparties (e.g., Bruce Power
2 Refurbishment Implementation Agreement);
- 3 • OPA-initiated RFPs in response to Directives for new conservation or generation
4 resources (e.g., CHP, GTA West, Northern York Region demand-response, RES III,
5 Northern York Region, and SWGTA);
- 6 • Sole-source negotiations between the OPA and counterparties in response to
7 Directives , such as Goreway Generating Station (“GS”), Portlands Energy Centre
8 GS, and the HESAs (Lac Seul, Upper Mattagami/Hound Chute, Healy Falls, and
9 Lower Mattagami), the Energy from Waste (“EFW”) Pilot or Demonstration Project
10 (“PDP”); and
- 11 • Standard Offer Programs (RESOP, CESOP, NHI and EFW).

12
13 A list of the conservation and generation resource contracts that are managed and
14 administered by the Contract Management group as of September 2008 is found in
15 Appendix A to this exhibit. These 40 contracts have a total average contract capacity of
16 slightly below 10,000 MW and include renewable generation (wind, hydroelectric, and
17 landfill/biomass), demand-response, natural-gas fired generation (including CHP
18 generation) and refurbishment of nuclear generation.

19 The portfolio of contracts listed in Appendix A represents approximately \$12.0 billion of new
20 investment in Ontario’s electricity sector.

21 By the end of 2008, Electricity Resources expects that the following procurements will
22 result in one or more executed contracts, which will be managed and administered by the
23 Contract Management group: RES III, Northern York Region, and certain HESA’s. These
24 contracts are expected to have a total contract capacity of approximately 850 MW, bringing
25 the total contract capacity being managed by the Contract Management group to
26 approximately 10,500 MW by the start of 2009.

27 Furthermore, as discussed under Initiative 1, the Procurement group will be procuring
28 additional capacity in 2009, which will also be managed and administered by the Contract
29 Management group once the contracts have been signed. This will bring the contract
30 capacity being managed by the Contract Management group to an estimated 13,500 MW
31 by the end of 2009.

1 For contracts that are not part of a Standard Offer Program, Contract Management's work
2 involves managing and facilitating the development of these projects from the contract
3 execution stage, through permitting, construction and start-up, to commercial operation.
4 Technical, operational, managerial, regulatory and economic issues are addressed as they
5 arise. This involves ongoing communication with counterparties, including site
6 investigations, to monitor the progress of permitting, approvals and construction of the
7 projects and undertaking all necessary actions to ensure that contractual milestones are
8 met, up to and including amending contracts, where appropriate.

9 For facilities that hold standard offer contracts, Contract Management work involves
10 maintaining up-to-date information on proponent progress, responding to requests for
11 amendments (such as reductions in contract capacity, or changes to wind project siting due
12 to local zoning requirements), assignments and consideration of relief under Force Majeure
13 provisions. OPA staff also report to the relevant LDCs when projects reach commercial
14 operation, allowing the LDC to commence contract payments consistent with the OEB's
15 Retail Settlement Code.

16 As counterparty to the contracts listed in Appendix A, the OPA is responsible for the
17 financial settlement of each facility that reaches its Commercial Operation Date ("COD"), as
18 well as meeting any other financial obligations of the contracts. This involves producing
19 timely and accurate settlement statements listing all relevant information, which includes
20 calculating monthly settlement values; researching contracts to clarify interpretation; and
21 resolving issues and concerns with suppliers in a professional and timely manner. It also
22 involves adapting existing processes and systems to accommodate new contracts.

23 The OPA's financial settlement system is automated; however, further enhancements will
24 be implemented in 2009, largely reflecting new contract structures. Currently, the OPA
25 financially settles 21 of the 40 contracts listed in Appendix A. However, by the end of 2009
26 several contracted facilities are expected to achieve commercial operation and the OPA is
27 expected to settle an additional 14 contracts. The remaining contracts will be financially
28 settled by the OPA once they reach commercial operation in 2010 or later.

1 RESOP contracts are settled by the Local Distribution Companies on behalf of the OPA.
2 As of August 31, 2008, approximately 144 such contracts were in-service and being settled.

3 2009 Milestones

4 The OPA's 2009-2011 Business Plan, filed at Exhibit A-2-1, identifies the following
5 Milestones for achievement by year-end 2009:

- 6 • Progress is being made on the competitive procurements to acquire additional
7 electricity generating resources.
- 8 • Contract negotiations, where necessary, have been completed to the overall benefit
9 of the ratepayer, and all financial settlements for 2009 have been completed
10 accurately and on time.
- 11 • Outreach and public education efforts are underway in southwest GTA.
- 12 • Effective communication material has been made available to proponents in
13 southwest GTA, and best-practice community engagement guidelines have been
14 developed.
- 15 • A number of new procurement contracts have been signed with both small and large
16 developers.
- 17 • New and improved mechanisms to procure different types of renewable energy
18 resources have been developed.

19

20 **2.0 2009 BUDGET**

21 The 2009 Budget for Strategic Objective 3 by major cost category, as well as a summary of
22 the variance between the 2008 and 2009 Budgets can be found in Table 1, below.

1

Table 1

Strategic Objective #3
Operating Costs
Variance Between 2009 Budget and 2008 Budget
(\$'000s)

Major Cost Category	2009 Budget	2008 Budget	Variance	2008 Forecast
Compensation & Benefits	3,334	3,089	245	2,880
Professional & Consulting Costs	4,205	4,717	(512)	4,254
Operating & Administration Expenses	193	314	(121)	245
Total Costs	7,732	8,120	(388)	7,379

2
3

4 The 2009 Budget will incorporate the following activities:

- 5 • development, stakeholder consultation and management of all procurements;
- 6 • drafting all procurement documents;
- 7 • negotiation of contracts, where appropriate;
- 8 • finalization of contracts;
- 9 • management of all finalized contracts, including the ones procured pre-2008;
- 10 • preparation/negotiation of amendments to finalized contracts when and if required;
- 11 • site visits to generation facilities under construction; and
- 12 • financial settlement of contracts for in-service facilities.

13

14 The total 2009 Budget of \$7,732 million represents a decrease from the total 2008 Budget
15 of \$8,120 million. This decrease is driven in part by a decrease in Professional and
16 Consulting costs for the Procurement group, which is partially offset by an increase in this
17 category for Contract Management.

18 In 2009, two generation procurements are expected to be completed in the first quarter;
19 one is expected to be completed in the third quarter; and one in the fourth quarter. With the
20 completion of these procurements, legal costs for the Procurement group will decrease.

21 Professional and consulting costs associated with managing contracts are expected to
22 partially offset the above noted decreases in 2009 due to an increase in the number of

1 contracts under management. More specifically, these new contracts relate to the
2 completion of the following procurements: CHP II and CHP III, SWGTA, RES III, Northern
3 York Region, and certain HESA's.

4 The 2008 Forecast of \$7.379 million represents a decrease of \$742 thousand from the
5 2008 Budget. The 2008 Forecast decrease results from a combination of the decrease in
6 procurement legal fees and the timing of expenditures for 2008. Certain procurements
7 commenced later in 2008 than originally anticipated, resulting in lower than expected legal
8 and consulting fees. Some of the required activities for Electricity Resources are
9 scheduled to take place later than planned, in the fourth quarter of 2008.

10 2009 Budget – Income from Registration Fees

11 In accordance with the Procurement Process filed with the OEB, the OPA charges a
12 registration fee to prospective participants in its competitive procurement processes. The
13 current registration fee is \$10,000 per proposal for electricity supply and capacity
14 procurement. For 2009, the OPA is requesting approval to charge fees of up to \$10,000 for
15 electricity supply and capacity procurements to allow the flexibility to consult with
16 stakeholders to develop appropriate fees for a feed-in-tariff ("FIT") program.

17 The amount of registration fees collected in a given year varies depending on the number
18 of procurement processes, as well as the number of participants in each procurement.
19 Based on planned procurements and past experience, the OPA had originally budgeted to
20 collect approximately \$220,000 in registration fees in 2009. The OPA is not proposing any
21 change to this budget to accommodate the FIT program. Registration fees are discussed
22 further in Exhibit D-2-1.

1 **3.0 2008 RESULTS**

2 (Responses to Measures of Success as defined in EB-2007-0791)
3

4 **1. Procurements have commenced and/or executed: procurements are launched in**
5 **a timely manner following receipt of Government Directives. Schedules,**
6 **timelines and procurement rules are made clear in order to best ensure an**
7 **efficient procurement process and potential participants have sufficient**
8 **information.**

9 In 2008, the OPA received three Directives for new electricity generation from the
10 Minister. In response, the OPA has initiated the procurement process for two of the
11 three Directives: Northern York Region and CHP III. The third Directive, SWGTA, was
12 issued on August 18, 2008 and the Procurement group is currently conducting
13 stakeholder consultation. This procurement is expected to be launched in Q4 2008.

14 **2. Activities to engage relevant stakeholders have been undertaken: for**
15 **procurements involving multiple participants (e.g., competitive and standard offer**
16 **procurements), potential participants have been consulted regarding the scope of**
17 **the procurement, and have been provided sufficient opportunity to comment on**
18 **draft procurement documents.**

19 Stakeholder consultation occurs on both broad-based levels, through the annual
20 general procurement meeting, bi-weekly procurement conference calls, and technical
21 information sessions; and on target-based levels, such as one-on-one bidder sessions
22 with proponents. The first general procurement meeting was held in 2008, and it was
23 well attended by all resource groups. As a result of its success, the OPA plans to
24 continue the event annually.

25 Q&A sessions are held throughout the procurement processes at various stages to
26 ensure proponents have equal access and opportunity to comment on draft
27 procurement documents.

28 **3. Comparison of generation procurement contracts: the OPA will have compared**
29 **similar contracts and/or mechanisms from other jurisdictions and will have**
30 **documented its findings.**

31 The OPA has reviewed procurement processes in a variety of jurisdictions to
32 understand how each manage their processes and how evaluations are considered. Of

1 particular interest, the OPA has reviewed the following three jurisdictions: Puget Sound
2 Energy (“PSE”), New York Power Authority (“NYPA”) and BC Hydro, to study the
3 manner in which the following four issues were handled:

- 4 • Environmental factors considered in evaluation
 - 5 • Transparency – Disclosure of final price
 - 6 • Third party opinion on price – Value for money?
 - 7 • Fairness advisors/monitors – Are they utilized in other jurisdictions?
- 8

9 These findings have been considered and adopted where applicable, when drafting
10 OPA generation procurement documents and in drafting the IPSP.

11 **4. Contracts have been signed for new generation resources: procurements result**
12 **in contracts signed within the timelines set out for the applicable procurements.**

13 In 2008, Lac Seul and the Upper Mattagami/Hound Chute HESA’s were signed. By the
14 end of 2008, the Procurement group expects to have signed contracts for one or more
15 of the following procurements: Northern York Region, RES III, and the Healy Falls and
16 Lower Mattagami HESAs. By the first quarter of 2009, contracts are expected to be
17 signed, within the established timelines, for CHP II and CHP III.

18 **5. Procurement contracts are being effectively managed: counterparty issues are**
19 **being efficiently addressed as they arise; specifically, contracted facilities**
20 **achieve their COD meeting all contract requirements.**

21 As of August 31, 2008, three generation resources under contract reached COD, and
22 progress was made on other contracted facilities. Annual administration of contracts
23 included over 40 site investigations, receipt and examination of over 85 reports from
24 counterparties, and work to resolve, among other things, 13 outstanding claims of force
25 majeure.

26 Most contracted facilities experienced issues at some point in their permitting, approvals
27 and construction phases. Contract Management has addressed and continues to
28 address all such issues as they arise.

6. For post-COD facilities, accurate settlements are being calculated: settlement statements are being issued to generators in a timely manner. Payment is being paid or received by the due date. Responses to counterparty requests are informative and accurate and disputes are being resolved in a timely and fair manner.

As of August 31, 2008, over 220 invoices were sent in 2008 to in-service facilities under contract. No invoices were issued late, and all payments were made or received by the specified due date. No interest calculations for late payment were required over this period. Adjustments to settlement calculations amounted to approximately \$400 for the period between January 1, 2008 and August 31, 2008, which represents 0.0001% of annual settlement payments. These adjustments were the result of a CPI adjustment error.

Appendix A

OPA Electricity Resources Managed Contracts

Technology	Project Name	Capacity (MW)	Location	Settlement
Renewable	Melancthon I	67.5	Shelburne	√
	Melancthon II	132	Melancthon and Amaranth counties	√√
	Kingsbridge I	39.6	Goderich	√
	Erie Shores	99	Port Burwell	√
	Prince I	99	Sault Ste Marie	√
	Prince II	90	Sault Ste Marie	√
	Enbridge Ontario Wind Power	181.5	Kincardine	√√
	Ripley	76	Ripley	√
	Kruger Energy Port Alma	101.2	Port Alma	√√
	Wolfe Island Wind Farm	197.8	Wolfe Island	√√
	Glen Miller	8	Trenton	√
	Umbata Falls	23	White River, near Marathon	√√
	Island Falls	20	Bradbum Township	
	Eastview Landfill Gas	2.5	Guelph	√
	Hamilton Community Energy Digester	1.6	Hamilton	√
	Trail Road Landfill Gas	5	Ottawa	√
Lac Seul	29.3	Ear Falls	√√	

Technology	Project Name	Capacity (MW)	Location	Settlement
	- Lac Seul GS - Ear Falls GS			
	Upper Mattagami/Hound Chute - Wawaitin GS - Sandy Falls GS - Lower Sturgeon GS - Hound Chute GS	44	Timmins/District of Timiskaming	
Natural Gas	Brighton Beach	550	Windsor	√
	Sarnia District Energy	565	Sarnia	√
	Sudbury District Energy	5	Sudbury	√
	Sudbury Hospital Cogeneration	6.7	Sudbury	√
	Trent Valley Cogeneration	8.3	Trenton	√
	GTAA	90	Mississauga	√
	St. Clair Energy Centre	577	near Sarnia	√√
	Greenfield Energy Centre	1,005	near Sarnia	√√
	Greenfield South Power	280	Mississauga	
	Goreway	839.1	Brampton	√√
	Portlands Energy Centre	550	Toronto	√√
	Halton Hills Generating Station	631.5	Halton Hills	
Combined Heat and Power	Algoma Energy	63	Sault Ste Marie	√√
	Great Northern Tri-Gen	11.5	Kingsville	√√
	East Windsor	84	Windsor	√√
	Durham College	2.3	Oshawa	√
	Thorold CHP	236.4	Thorold	
	Countryside London	12	London	√√
	Warden Energy Centre	5	Markham	√
Nuclear	Bruce Power Refurbishment Implementation Agreement	3,000	Kincardine	√
Demand Reduction	Loblaw	10	Province-wide	√
	York Region	18.4	York Region	√

1 √ - Currently settled by the OPA

2 √√ - Expected for settlement by the OPA by the end of 2009

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