ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B

AND IN THE MATTER OF an Application by Ontario Power Generation Inc. seeking approval of the Reliability Must-Run contract entered into with the Independent Electricity System Operator in relation to OPG's Lennox Generating Station;

SUBMISSION OF ONTARIO POWER GENERATION INC.

OVERVIEW

1. Ontario Power Generation Inc. ("OPG") determined that revenues from its Lennox Generating Station ("Lennox") were not and will not be, over the foreseeable future, sufficient to cover Lennox's fixed and variable costs. Accordingly, on February 6, 2007, OPG gave the Independent Electricity System Operator ("IESO") notice of its intent to deregister Lennox. In response to OPG's deregistration request, the IESO determined that the deregistration of Lennox would have an unacceptable impact on the reliability of the IESO-controlled grid. The IESO, therefore, as it was entitled to do under the Market Rules and under the terms of OPG's Licence, required OPG to enter into a reliability must-run ("RMR") agreement with respect to Lennox.

2. The IESO and OPG have settled the terms and conditions of the Lennox RMR agreement in accordance with the Market Rules. OPG therefore asks the Ontario Energy Board to approve the Lennox RMR agreement as required under section 5.2 of OPG's Licence.

3. OPG filed its "Request for Approval of a Reliability Must-Run Agreement for Lennox G.S." with the Board on August 8, 2007 (the "OPG Request"). The OEB, in its Procedural Order No. 1 issued on October 16, 2007, indicated that it would proceed by

way of a written hearing. On November 7, 2007, OPG and the IESO filed answers to written interrogatories from Board staff.

4. These materials support OPG's request for approval of the Lennox RMR agreement.

I. OPG submits that the Board should approve the Lennox RMR contract as submitted.

5. There have been no objections regarding the Lennox RMR agreement raised by any party or by Board staff.

6. The IESO has established the need for the Lennox RMR contract. Following OPG's notice of request to deregister Lennox, the IESO conducted an assessment for the RMR contract which concluded that "all 4 units at Lennox are required for the purposes of reliability during the period Oct 2007 to Sep 2008." (Lennox GS Deregistration Analysis, May 11, 2007, page 1, paragraph 4) Accordingly, the IESO identified Lennox as a reliability must-run resource and denied OPG's request to deregister Lennox.

7. Pursuant to its mandate to maintain the reliability of the IESO-controlled grid and consistent with the Market Rules for the Ontario electricity market, having identified Lennox as a reliability must-run resource, the IESO negotiated a reliability must-run contract with OPG for Lennox.

8. The agreement is the same in all material aspects as the existing agreement that was approved by the Board in January 2007 (EB-2007-0205). The Decision regarding the existing agreement states: "the Board finds that the financial provisions of the RMR Contract are reasonable. The Board is also satisfied that the RMR Contract complies with OPG's licence conditions and the Market Rules, and that the RMR Contract does not contain incentives for OPG to alter its offer behaviour. The Board therefore approves the RMR Contract as submitted." (Decision EB-2006-0205, p. 8) The Board also states that "the structure of the proposed RMR Contract is similar to the structures of the two previous RMR contracts". (Procedural Order No. 1, October 16, 2007) In its responses to Board staff interrogatories, OPG has provided information relating to the cost, revenue and operational variances between the existing Lennox RMR contract and the proposed

contract that is the subject of the present proceeding. OPG submits that as the agreement for which approval is being sought is the same as the existing Lennox RMR agreement which was approved by the OEB in January 2007, with the exception of updated cost and revenue information, that the financial provisions of the RMR contract are reasonable.

9. As there are no material changes from the previous agreement, which was so recently subject to a full written hearing and approved by the Board, OPG submits that the Board should conclude that the attached Lennox RMR agreement is consistent with the requirements of the market rules and the licences of OPG and the IESO, and approve it as submitted.

II. OPG submits that the Board should approve a condition such that future RMR contracts have a term of more than one year, as that would be more cost-effective.

10. The Board's Procedural Order No. 1, issued on October 16, 2007, contemplates a condition such that any future RMR contract have a term of more than one year, if that would be more cost-effective. OPG believes that such an approach would be more cost effective and therefore it strongly supports the implementation of such a condition.

The negotiation, preparation of application materials and participation in hearings relating to the Lennox RMR contract requires a significant amount of OPG resources. This includes staff time commitments at Lennox GS and in OPG's Energy Markets, Law, Regulatory Affairs and Public Affairs groups, and funding for publication services. The timeline for the Lennox RMR contracts has been such that negotiation of any subsequent contract begins immediately following the approval of a current contract. In the event that it is expected that Lennox will be needed for more than one year, the negotiation of one-year contracts is inefficient, especially as there is a cancellation clause in the event that Lennox is found to be no longer needed for reliability purposes.

OPG proposes that any future contracts, regardless of term, continue to use the existing contract model, including the true-up methodology currently employed. In OPG's submission, this model works well and would continue to do so regardless of contract term.

OPG also proposes that future Lennox RMR contracts be placed on a calendar year basis to align with OPG's planning and reporting year. This would also serve to significantly reduce the administrative burden on OPG. As such, it is proposed that the next Lennox RMR contract be for a 15-month or 27-month period ending on December 31 and establishing the start date of any subsequent contract as January 1.

III. Relief Requested

11. In conclusion, OPG submits that the Lennox RMR agreement complies with OPG's Licence and the Market Rules, and that the financial provisions of the RMR agreement are reasonable, and therefore, asks that the OEB approve the Lennox RMR agreement in accordance with section 5.2 of OPG's Licence. OPG also submits that the implementation of a condition such that any future RMR contract have a term of more than one year would improve the efficiency of the Lennox RMR contract process, and therefore asks the Board to implement such a condition.

All of which is respectfully submitted,

[*Original signed by*]

Andrew Barrett

Vice President, Regulatory Affairs and
Corporate Strategy

Date: _Nov. 14, 2007____________