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November 21, 2007

File 15315

**VIA COURIER AND EMAIL**

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 26th floor  
Toronto, ON  
M4P 1 E4

Dear Ms. Walli:

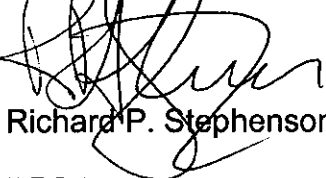
**Re: EB-2007-0715 - Lennox Generating Station Reliability Must-Run  
Agreement – PWU Argument**

Attached please find the Power Workers' Union ("PWU") Final Argument for  
EB-2007-0715.

Pursuant to the Board's Procedural Order #1, provided are six (6) hardcopies  
of the PWU's submission. An electronic copy has been provided by email,  
and copies of the submission have been provided to registered parties via  
email.

Yours very truly,

**PALIARE ROLAND ROSENBERG ROTHSTEIN LLP**



Richard P. Stephenson

RPS:jr

Encl.

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Registered Parties (*via email*)

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Ian G. Scott, Q.C., O.C.  
(1934 - 2006)

## **ONTARIO ENERGY BOARD**

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

**AND IN THE MATTER OF** an application by Ontario  
Power Generation Inc. for approval, pursuant to Part  
1, Paragraph 5.2 of Ontario Power Generation Inc.'s  
Generation Licence EG-2003-0104, of a Reliability  
Must-Run Agreement for the Lennox Generating  
Station facilities between Ontario Power Generation  
Inc. and the Independent Electricity System Operator.

### **SUBMISSION OF THE POWER WORKERS' UNION**

1. On February 6, 2007, Ontario Power Generation Inc. ("OPG") gave the Independent Electricity System Operator ("IESO") notice of its intent to deregister Lennox Generating Station ("Lennox"). In response to OPG's deregistration request, the IESO determined that deregistration of Lennox would have an unacceptable impact on the reliability of the IESO-controlled grid. In accordance with the Market Rules, the IESO required OPG to enter into a reliability must-run ("RMR") agreement for Lennox.
2. By letter dated April 5, 2007 the IESO denied OPG's request to deregister Lennox and requested that OPG enter into a new RMR agreement.
3. OPG determined that revenues from Lennox would not be sufficient to cover Lennox's fixed and variable costs. The IESO and OPG have agreed on the terms and conditions of the Lennox RMR agreement.
4. The IESO has established the need for the Lennox RMR agreement. Following OPG's notice to the IESO to deregister Lennox the IESO conducted a reliability assessment for the RMR agreement and concluded that "all 4 units at Lennox are required for the purposes of reliability during the period Oct 2007 to Sept 2008."<sup>1</sup>

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<sup>1</sup> Lennox GS Deregistration Analysis, May 11, 2007, pg 1, paragraph 4

5. On July 23, 2007 the IESO executed the new RMR agreement.
6. By letter dated August 8, 2007 OPG filed with the OEB a request for approval of the Lennox RMR agreement. This is the third RMR agreement for the Lennox facility.
7. On November 7, 2007 OPG filed responses to Board staff's written interrogatories.
8. The IESO filed supplementary information in response to a Board staff interrogatory on November 16, 2007.
9. No party has raised objections regarding the Lennox RMR agreement.
10. The term of the RMR agreement is for 1 year. The IESO has the right to terminate the RMR agreement upon appropriate notice (pg. 18 RMR Agreement Article 7.3).
11. This new RMR agreement is the same in all material aspects as the existing agreement that was approved by the Board on February 22, 2007 (EB-2006-0205). The OEB decision regarding the existing agreement states: "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."<sup>2</sup>
12. Audit of the existing RMR agreement demonstrates that OPG has complied with the RMR agreement and the auditor is "satisfied with the reasonableness of the Lennox plant operation strategy, costs, and practices."<sup>3</sup>
13. The PWU agrees that the Lennox RMR agreement is consistent with the requirements of the IESO Market Rules and OPG's OEB licence. The RMR agreement is required to ensure reliability of the Ontario electricity market at an acceptable level.
14. Currently, and for the medium term, there is no viable alternative available to replace the Lennox capacity.
15. OPG has recommended a shift to either a 15 or 27 month RMR agreement commencing with the next RMR agreement. The PWU supports a longer term

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<sup>2</sup> OEB Decision EB-2006-0205, pg. 8

<sup>3</sup> Ecco International's RMR Energy Audit, Executive Summary November 2007 pg. 2

RMR agreement to help reduce the cost of administering and obtaining regulatory approval of the RMR agreement, as well as, providing the wholesale market greater certainty of the generation expected to be available over the intermediate term.

- 16.If the new RMR agreement were to be extended to 27 months some of the provisions in the longer agreement would need to be modified to appropriately compensate OPG over the 27 month period.
- 17.The Lennox facility provides Ontario with a large dual fuel generation option. There is no other generation facility of this size that provides Ontario with the fuel switching benefits that Lennox provides. As a result of this capability Lennox's peaking impact on gas facilities can be substantially minimized, enhancing the overall flexibility of Ontario's gas system.
- 18.The Ontario Power Authority ("OPA") assessment<sup>4</sup> has determined that "there is an ongoing requirement for Lennox or its equivalent and that Lennox is the more cost effective option compared to a new simple cycle or combined cycle gas-fired generator".
- 19.Lennox has also provided Ontario significant savings relative to other options as identified in the comparative analysis for Lennox completed by the OPA as part of their IPSP<sup>5</sup> assessment as illustrated below. The OPA states that the "out of market cost paid to the SCGT or CCGT options would have been between three and four times the cost of the existing RMR agreement with Lennox."<sup>6</sup>

13 Table 3: Net Out of Market Costs of Comparator Plants 2005 & 2006 (\$Millions)

	Year	
	2005	2006
SCGT	\$132	\$237
CCGT	\$154	\$196
Lennox	\$58*	\$62**

14 Source: OPA

15 \*Actual cost for Oct. 2005- Sept. 2006

16 \*\*Estimated cost for Oct. 2006- Sept. 2007

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<sup>4</sup> EB 2007-0707 OPA IPSP submission, Exhibit D, Tab 8, Schedule 1, Attachment 1, August 29, 2007 pg. 2

<sup>5</sup> Ibid pg. 7

<sup>6</sup> Ibid

20. The Lennox facility also provides a good hedge for future negotiation options for power imports into Ontario.

## **PWU RECOMMENDATIONS**

1. The PWU submits that the Lennox RMR agreement is required to ensure system reliability and that it complies with OPG's licence and the IESO's Market Rules. The provisions of the RMR agreement are reasonable in the current circumstances. The PWU therefore, recommends that the OEB approve the Lennox RMR agreement as submitted and in accordance with section 5.2 of OPG's licence.
2. The OPA has included Lennox as a supply resource for the duration of Ontario's first IPSP. As a consequence, the PWU recommends that an alternative to the RMR agreement be considered. Given the findings regarding the longer term need for Lennox in the OPA's IPSP submission<sup>7</sup>, the OEB should direct OPG to evaluate and consider the merits of converting the RMR agreement to a medium term agreement between the OPA and OPG. The alternative should be a commercially viable alternative that fairly compensates OPG for the commercial value that the Lennox facility provides Ontario. Termination rights in such an agreement must be balanced, fair and ensure reasonable termination notice to OPG and the IESO.
3. Should OPG's assessment result in a recommendation that OPG would prefer a medium term agreement with the OPA as compared to a 15 month or 27 month agreement, the PWU recommends that the OEB, in the proceeding on the OPA's IPSP, direct the OPA to enter into a medium term agreement with OPG and that the OPA provide ample opportunity for the review of the agreement.

All of which is respectfully submitted,

Date: November 21, 2007

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<sup>7</sup> EB 2007-0707 OPA IPSP submission Exhibit D, Tab 8, Schedule 1, Attachment 1, August 29, 2007 pg. 7