

**BY COURIER AND RESS**

November 21, 2007

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON  
M4P 1E4

Dear Ms Walli:

**Re: Ontario Power Generation Inc.  
Application for Reliability Must Run Contract for Lennox G.S.  
Board File Number EB-2007-0715**

Please find the Independent Electricity System Operator's final argument in the above referenced proceeding.

As required in the Board's Procedural Order No. 1, the IESO has provided two paper copies of the IESO's submission and one electronic copy filed with RESS. Copies of the submission are also being supplied electronically to intervenors.

Yours truly,

David Short, P.Eng.  
Senior Regulatory Analyst  
Regulatory Affairs  
Independent Electricity System Operator

Encl.

c: Andrew Barrett, OPG – email only  
Intervenors – email only

**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

**SUBMISSIONS OF THE INDEPENDENT ELECTRICITY SYSTEM OPERATOR**

**I. Introduction**

1. The Independent Electricity System Operator ("IESO") appreciates the opportunity to make submissions in respect of the application filed by Ontario Power Generation Inc. ("OPG") seeking Ontario Energy Board ("Board") approval of the 2007-8 Lennox Generating Station ("Lennox") reliability must-run contract ("RMR Contract").
2. The IESO received a Notice of Deregistration on February 6, 2007 from Ontario Power Generation seeking to deregister the 2,140 MW Lennox facility. Pursuant to Chapter 7, Section 2.4 of the Market Rules, the IESO initiated a technical assessment of the impact of the removal from service of the registered facility on the reliability of the IESO-controlled grid.
3. On April 5, 2007, the IESO notified OPG that "de-registration of the Lennox facility would put the IESO controlled grid at undue risk and it is our intention to enter into negotiations for a Reliability Must Run contract." The negotiation of the 2007-8 RMR Contract was accomplished through the authority provided to the IESO in Chapter 7, Section 2.4 with terms and conditions consistent with Chapter 7, Sections 9.6 and 9.7 of the Market Rules.
4. On May 11, 2007, the IESO completed its "Lennox GS Deregistration Analysis" report. In this report, the IESO states "that all 4 units at Lennox are required for the purposes of reliability during the [contract] period." It was determined that Lennox provides support to accommodate expected peak flows to the Ottawa area and towards Toronto from the west, and provides sufficient reactive resources and to adequately control voltages in the Greater Toronto area, and eastern Ontario including the Ottawa area.
5. The IESO and OPG reached agreement on the terms and condition of the 2007-8 RMR

Contract in accordance with the previously referenced Market Rules, and consistent with its licence obligations, OPG filed its "Request for Approval of a Reliability-Must Run Agreement for Lennox G.S." with the Board on August 8, 2007 ("OPG Request").

6. The Board issued Procedural Order No 1 on October 16, 2007 and directed a written hearing which included provision for written interrogatories. On November 7, 2007 both OPG and the IESO filed responses to Board staff interrogatories. One of the Board staff interrogatories enquired about whether the IESO had or would be undertaking an independent audit of OPG's performance under the 2006-7 RMR Contract. In fact the IESO had initiated an independent audit and upon receipt of the audit report in November 2007, the IESO filed a supplemental interrogatory response on November 16, 2007 to provide the Board with the Executive Summary of the independent audit. (IR 4b)

7. The IESO submits that the record supports the Board granting approval of the 2007-8 RMR Contract.

## **II. The financial provisions of the RMR contract are reasonable**

8. As noted above, in the fall of 2007, the IESO initiated an independent audit of the 2006-7 RMR Contract that covered contract compliance, cost verification, contract practices and reasonable costing. The Executive Summary of the auditor's report indicated satisfaction "with the reasonableness of costs." The auditor also "verified OPG's billing costs" which provides assurance to the Board that OPG's performance under the 2006-7 RMR Contract was satisfactory and the terms of that contract contain reasonable financial provisions.

9. Given that the structure of the proposed 2007-8 RMR Contract is materially the same as the 2006-7 RMR Contract, which was approved previously by the Board, and given the auditor's satisfactory findings on the 2006-7 RMR Contract, it is appropriate for the Board to accept the financial provisions in the 2007-8 RMR Contract as reasonable.

10. The difference between the actual 2005-6 and 2006-7 RMR Contract costs on an annual basis is due to the hours of operation the facility was required by the IESO to support the reliability of the IESO-controlled grid for the GTA and Ottawa areas. In comparison to previous contracted costs in 2005-6, the costs for the 2006-7 term are similar with the exception of the increased fixed and variable costs associated with the increased usage of Lennox mainly due to generation outages east of Toronto throughout the summer of 2007.

11. Looking forward to the estimated cost for the 2007-8 RMR Contract, it is expected that

Lennox's reliability usage will be reduced in the 2007-8 period and that accordingly contract costs will return to 2005-6 levels. These costs will also reflect the requirement that OPG maintain its facilities and undertake needed O&M work to ensure the facilities are available to support the reliability of the IESO-controlled grid during the term of the contract.

### **III. Addressing Future Contracts**

12. In Procedural Order No. 1, as part of the review of reasonable cost issues, the Board asked if "the financial provisions of the contract could be improved if the term of the RMR contract were to be longer than one year." In addition, the Board pointed to the future need of Lennox that is being addressed by the Ontario Power Authority ("OPA") through their Integrated Power System Plan Filing ("IPSP") (EB-2007-0707 Exhibit D, Tab 8, Schedule 1 and associated Attachment 1.)

13. The IESO agrees that if the term of the contract were extended beyond one-year there would be modest savings for the IESO in relation to internal costs associated with annual negotiation and the required regulatory support.

14. Should the Board conclude that it is appropriate for a future RMR contract for Lennox to be longer than one-year, there are a number of mechanisms available to implement the Board's direction. In particular, the Market Rule restriction that limits the term of a reliability must-run contract to no more than one year is subject to any contrary provisions contained in a licence or provisions of a reliability must-run contract approved by the Board.

### **IV. Conclusions**

15. The 2007-8 RMR Contract contains reasonable financial provisions and meets the terms and conditions required by the Market Rules. It is submitted that the Board should approve the 2007-8 RMR Contract as requested by OPG in its application filed on August 8, 2007.

16. In addition, the IESO submits that there would be modest savings for the IESO if a longer-term future reliability must-run contract were ultimately approved by the Board.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED ON  
BEHALF OF THE INDEPENDENT ELECTRICITY  
SYSTEM OPERATOR,**

***Original signed by***

David Short  
Senior Regulatory Analyst  
Independent Electricity System Operator

Submitted this 21<sup>st</sup> day of November, 2007