

Board Staff Interrogatory #123

Ref: Ex. G1-T1-S1, pages 5-6, lines 18-31, 1-16

Issue Number: 7.1

Issue: Are the proposed test period regulated hydroelectric business revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

OPG discusses the impact of the DC intertie on SMO transactions and revenues. OPG proposes to use the actual SMO results from the second half of 2009 as an indicator of SMO revenues over the test period claiming that an average of the previous three years' revenues will overstate expected revenues for 2011-12.

- a) What is the comparative economics of exports through the intertie compared to SMO transactions?
- b) Are net unit revenues higher for intertie transactions compared to SMO transactions?

Response

- a) Export transactions through the interties are subject to various market charges which are described in detail in the IESO Market Rules for the Ontario Electricity Market, Chapter 9, Sections 3 and 4.

Segregated Mode of Operations ("SMO") transactions are subject to various charges and costs which are outlined in Ex. G1-T1-S1, page 4, lines 22 to 31. In addition, because SMO transactions require the units involved to physically separate from the IESO grid, and intertie transactions do not, they incur costs and risks not applicable to intertie transactions. A description of the costs and risks specific to SMO is found in Ex. G1-T1-S1, page 5, lines 1-16.

- b) Revenues from any transaction are based on the unique terms of the individual transaction. Hence, net unit revenue for SMO transactions can be lower, higher or the same as intertie transactions. Some of the factors that can influence the relative net unit revenues are the price of the energy that is bought/sold, the type of product sold, inbound/outbound charges, transmission charges, risk premiums, minimum profit margins and term.

Board Staff Interrogatory #124

Ref: Ex. G1-T1-S1, pages 7-8, lines 23-32, 1-4

Issue Number: 7.1

Issue: Are the proposed test period regulated hydroelectric business revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

OPG claims that a three year average of net water transactions as specified in the Decision with Reasons in EB-2007-0905 will overstate actual revenues for the test years. OPG claims that actual net revenues realized in 2009 will be more representative of the lower market prices expected in 2011-12.

- a) Does OPG have a market price forecast for 2011 and 2012?
- b) What economic factors does OPG expect to result in reduced market prices over the 2011-12 period?
- c) OPG is expecting SBG conditions to result in reduced Ontario hydroelectric production. What is the potential and opportunity for OPG to increase water transactions with New York when SBG occurs in Ontario?
- d) What is the minimum market price for water transactions to be profitable with New York?
- e) Under SBG conditions, would any sale, at any price equal to or higher than the minimum, be preferable to spilling water?

Response

- a) Yes, OPG has a proprietary market price forecast.
- b) The economic factors which OPG expects to result in reduced market prices over the test period are:
 - An increase in baseload capacity: OPG's market price forecast reflects an increase in baseload supply (i.e., Bruce Power nuclear units returning to service) which would tend to reduce market prices. The IESO and OPA are also forecasting an increase in generation supply.
 - An increase in renewable supply: Wind and solar generation produce when their fuel source (wind or sun) is available, not in response to market price signals. This has the effect of depressing market price.

- 1 • Slow demand growth: Demand growth in Ontario is expected to increase less than
2 one per cent annually through 2012. Lower demand growth, relative to supply growth,
3 typically puts downward pressure on market prices.
4
- 5 • The moderate natural gas price forecast through 2012: Natural gas and electricity
6 prices are directly correlated. If natural gas prices drop, then electricity prices in
7 Ontario tend to drop as well.
8
- 9 c) OPG explores opportunities for water transactions with New York Power Authority
10 ("NYPA") when surplus baseload generation ("SBG") is forecast. However, NYPA may
11 not be able to accept additional water due to similar market conditions in New York (i.e.,
12 when Ontario is experiencing SBG conditions, other interconnected markets may be in a
13 similar situation).
14
- 15 d) In order for water transactions to be profitable, the price received needs to recover OPG's
16 costs, which are the accommodation charge (see Ex. G1-T1-S1 page 7, lines 5-11), the
17 Gross Revenue Charge ("GRC") and the costs to schedule the transactions.
18
- 19 e) In general, any water transaction that allows OPG and NYPA to efficiently manage the
20 water resource, operate in accordance with good utility practice and recover incremental
21 costs is preferable to spilling water.

CCC Interrogatory #032

Ref: Ex. G1-T1-S1, Table 1

Issue Number: 7.1

Issue: Are the proposed test period regulated hydroelectric business revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

Please explain why, in all revenue categories actual revenues exceeded budget/board approved amounts

Response

The statement in the question is incorrect. As shown in Ex. G1-T1-S2, Table 1, in 2009 the budgeted amounts for both Segregated Mode of Operation and Water Transactions exceeded the actual revenues. Please refer to the "Comparison of Regulated Hydroelectric Other Revenues" Ex. G1-T1-S2 for comparison details.

VECC Interrogatory #026

Ref: Ex. G1-T1-S1, Table 1

Issue Number: 7.1

Issue: Are the proposed test period regulated hydroelectric business revenues from ancillary services, segregated mode of operation and water transactions appropriate?

Interrogatory

Please re-issue Table 1, adding columns for 2011 and 2012 that provide forecasts for Segregated Mode of Operation and Water Transactions rows on the basis of the Board approved Methodology from EB-2007-0905. Please also provide a description of the calculation in each case.

Response

The requested revisions to the Segregated Mode of Operation ("SMO") and Water Transactions ("WT") rows of Table 1¹ are shown below.

The forecast for 2011 and 2012 is the average of the net revenues from SMO and WT for the last three years available (2007, 2008 and 2009).

IR L-14-026
Exhibit G1
Tab 1
Schedule 1
Table 1

Revenue Source	2007	2007	2008	2008	2009	2009	2010	2011	2012	IR L-14-026	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Plan	Plan	2011	2012
										Forecast	Forecast
Ancillary Services	31.6	35.6	32.4	41.2	35.7	42.5	39.1	38.3	39.5	38.3	38.3
Segregated Mode of Operation	0.0	4.4	5.0	13.7	6.6	3.6	6.6	1.5	1.6	7.2	7.2
Water Transactions	0.0	4.3	5.2	8.8	6.9	4.9	6.9	5.1	5.2	6.0	6.0
Total	31.6	44.3	42.6	63.7	49.2	51.0	52.6	44.9	46.2	51.5	51.5

¹ Ex. G1-T1-S1, Table 1