EB-2007-0715

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;

SUPPLEMENTAL REPLY SUBMISSION OF ONTARIO POWER GENERATION INC.

1. Ontario Power Generation Inc. ("OPG") has reviewed the November 21, 2007 submission made by Board staff regarding OPG's application for approval of a Reliability Must-Run ("RMR") contract for the Lennox Generating Station ("Lennox").

2. Board staff notes in their submission that the Integrated Power System Plan assumes that Lennox will remain in service for local reliability reasons until at least the end of 2010, that the IESO has confirmed that Lennox is expected to be required for reliability reasons until at least the end of 2009, and that OPG has confirmed that it will be filing a request to de-register Lennox effective October 1, 2008.

3. Based on the above, Board staff submits that absent a longer term solution, the 2007-08 RMR contract which is the subject of OPG's current application will likely not be the last RMR agreement for Lennox. OPG agrees with this conclusion.

4. Board staff indicates that they currently have no reason to believe that a multi-year RMR agreement for Lennox would not be more cost-effective than a one-year agreement. OPG, for its part, has already indicated its view that a 27-month agreement would provide savings by reducing the effort associated with negotiating annual agreements and seeking approval of these agreements from the OEB.

5. Unfortunately, the Board staff submission then goes on to propose that the Board direct OPG and the IESO to submit along with future RMR agreements: the financial costs associated with a RMR agreement that has a term of one-year; the financial costs associated with a RMR agreement that has a term of 27 months; and, an analysis of any significant differences that may exist in relation to the management of investments in and the operation of Lennox under a one-year agreement versus a 27-month agreement.

6. OPG does not support this proposal by Board staff. The proposal will significantly increase the burden on the two parties involved in negotiating the RMR agreement without any apparent benefit. It will also unnecessarily complicate the associated regulatory process by introducing an additional set of cost information which will have to be agreed to by OPG and the IESO, and requiring the production of an artificial comparative analysis. In OPG's submission, it should be obvious that there will be some economies in moving to a longer term agreement. Requiring the parties to produce this extra information will have the unfortunate effect of reducing the benefit of moving to a longer term agreement.

7. Board staff's submission states that the adoption of a multi-year approach to RMR agreements may call into question the continued suitability of elements of the existing contract model. With respect, there is no evidence to support this suggestion. In fact, OPG has already expressed the view that any future Lennox RMR contracts with the IESO, regardless of term, should continue to use the existing contract model and true-up methodology. In OPG's submission, the current contract form has worked quite well and there should be no presumption that it needs to change simply because the term of the agreement has been extended from 12 months to 27 months.

8. Board staff's submission also notes that Board staff may wish to consider additional new conditions such as a requirement that Lennox's performance under the RMR agreement be audited and reported annually to the Board. The current RMR agreement already specifies that the IESO may conduct audits of OPG's performance under the contract. Given that the IESO has the right to initiate one or more audits during the contract term and that such audits have been conducted for the first two Lennox RMR contracts and

reported to the Board, OPG sees no requirement for such a condition, as there is no intention to change the form of the agreement.

9. For all of the reasons cited in its Reply Submission of November 28, 2007, OPG submits that the Board should approve the Lennox RMR agreement as filed. With respect to the next RMR agreement, OPG is supportive of the Board providing for the term of that agreement to be extended to 27 months in the interest of regulatory and administrative efficiency. As discussed in this submission, OPG does not support some aspects of the proposals of Board staff as it believes they would significantly reduce the benefits from moving to a 27-month agreement.

All of which is respectfully submitted,

[*Original signed by*]

Andrew Barrett

Vice President, Regulatory Affairs and
Corporate Strategy

Date: ___________________________