

IN THE MATTER OF 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 Thunder Bay Generating Station
between Ontario Power Generation Inc. and the
Independent Electricity System Operator

Independent Electricity System Operator ("IESO")

Interrogatory Responses to
Power Workers' Union ("PWU")

2) Are the financial provisions of the reliability must-run agreement reasonable?

2.0-PWU-1

Ref (1): February 27, 2013 Application, Page 3

(a) Performance Terms

The RMR Agreement obligates OPG to offer into the IESO-administered market the maximum available amount of energy and operating reserve from one unit at Thunder Bay GS consistent with good utility practice and in a commercially reasonable manner.

Ref (2): February 27, 2013 Application, Page 4

(b) Payment Terms

The RMR Agreement compensates OPG for the following cost components as described in Schedule A of the agreement:

1. A monthly fixed payment to cover costs that would be avoided by OPG if the facility was de-registered;
2. Market costs, which cover IESO charges related to the energy withdrawn from the IESO-controlled grid to maintain station operations;
3. Auxiliary boiler fuel costs and, in certain situations, costs incurred for regulatory testing; and,
4. A Net Revenue Sharing Adjustment ("NRSA"), which allows OPG to retain 5% of the operating profit (market revenue less actual fuel costs) when the RMR facility is dispatched to run. There is no NRSA when actual fuel costs exceed market revenues. This calculation is performed on a quarterly basis.

Variable costs are compensated through revenues earned in the IESO markets and not via this agreement.

Ref (2): February 27, 2013 Application, Page 6

The improvements in the Agreement are as follows:

1. Previous contracts provided for the recovery of fixed and variable costs after-the-fact as determined and invoiced by OPG. As noted in section 4(b) above, this Agreement provides for a fixed monthly payment based on a mutually agreed forecast of fixed costs, with variable costs being recovered through IESO energy market revenues. The predetermined fixed payment provides an increased incentive for OPG to manage its costs within the agreed levels.
2. Previous contracts provided for a revenue sharing mechanism that allowed OPG to receive 5% of gross revenue. This Agreement provides for

OPG to receive a smaller incentive; 5% of net revenues after deducting the actual costs of fuel used when dispatched. Consumers will benefit from the smaller incentive payment provided to OPG, while OPG still maintains a sufficient incentive to offer the unit efficiently into the IESO market.

3. In addition, Schedule E of the RMR Agreement provides that OPG will offer the facility in such a way as to manage its limited fuel supplies in order to meet the IESO's reliability needs and minimize its stranded fuel costs at the termination of the agreement.

- a) Do the performance and payment terms of the Reliability Must-Run ("RMR") Agreement prevent OPG from recovering its variable costs when it is obligated to dispatch one unit at Thunder Bay Generating Station (GS) during hours in which actual fuel costs exceed market revenue?
- b) Please elaborate the improvements in the RMR Agreement for Thunder Bay GS compared to previous RMR contracts with regard to the cost-effectiveness of the operation of Thunder Bay GS as an RMR resource.

IESO Response:

- a) See OPG's response to interrogatory 2.0-PWU-1.a)
- b) See OPG's response to interrogatory 2.0-PWU-1.b)

4) Should the Board develop an expedited process to deal with an extension of the term of the RMR agreement for Thunder Bay GS beyond December 31, 2013?

This issue was proposed by the PWU in its submission filed on April 23, 2013 in response to the request of the Board on for input on whether any further issue(s) should be added to the issues list for this proceeding.

4.0-PWU-1

Ref (1): February 27, 2013 Letter Application, Attachment 4. IESO Technical Assessment, Thunder Bay De-registration, Page 2.

The Northwest zone will need to rely on one Thunder Bay unit to supply the zonal demand for 2013 to allow for lower than normal water conditions. Beyond this period, a new assessment would be required to evaluate the need for one Thunder Bay unit after the conversion of Atikokan to biomass is completed, and the operating characteristics of the converted unit are well known.

- a) When does OPG expect that the Atikokan Conversion project will be completed?
- b) When does OPG expect that Atikokan GS will return to service?

- c) Is it OPG's understanding that the IESO expects to conduct a new assessment to evaluate the need of a unit at Thunder Bay GS beyond the expected end date of the RMR Agreement of December 31, 2013 until the time when Atikokan GS returns to service?
- d) Please confirm that if a unit at Thunder GS still is required to operate beyond the end date of the RMR Agreement of December 31, 2013, OPG and the IESO will need to sign a new RMR agreement that comes into effect January 1, 2014.
- e) Will such a new agreement require a new assessment to be conducted by the IESO to evaluate the need of using Thunder Bay facilities as RMR resources?
- f) If a new assessment is required and the result of the new assessment with respect to the need of one unit at Thunder GS is similar to the result of the IESO's assessment that is the basis for the current Thunder Bay RMR Agreement, would the RMR Agreement with an effective date of January 1, 2014 be similar to the current RMR Agreement?
Please provide explanation in your response.

IESO Response:

- a) See OPG's response to interrogatory 4.0-PWU-1.a)
- b) See OPG's response to interrogatory 4.0-PWU-1.b)
- c) See OPG's response to interrogatory 4.0-PWU-1.c)
- d) IESO adopts OPG's response to interrogatory 4.0-PWU-1.d)
- e) Yes.
- f) IESO adopts OPG's response to interrogatory 4.0-PWU-1.f)