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

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Independent Electricity System Operator ("IESO")

Interrogatory Responses to

Vulnerable Energy Consumers Coalition ("VECC")

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1. Does the reliability must-run agreement comply with OPG's licence?

1-VECC-1

Reference: General

Is the IESO aware of any changes in either the market rules or in the terms and conditions of OPG's licence – since the last time the Board approved an R M-R Agreement pursuant to an application by OPG – that would have any effect with respect to approval being granted on the instant application? If so, please provide details.

IESO Response:

The IESO is not aware of any market rule changes or OPG license changes since the last time that the Board approved an RMR Agreement that would have any effect on this application.

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

2-VECC-1

Preamble:

The Board's Decision with Reasons issued in the EB-2005-0490 proceeding states (page 2) in part:

Some salient provisions of the RMR Contract include:

- *term of 1 year, without renewal or extension;*

- *payments to OPG of an estimated $62 million over the contract term (comprised of OPG's fixed and variable costs for Lennox, a "margin amount" of $1.283 million, and additional revenues equivalent to 5% of the gross revenues earned by or attributed to Lennox in the IESO-administered markets); and*

- *an obligation on OPG to offer into the IESO-administered markets the maximum amount of energy and operating reserve from Lennox in a commercially reasonable manner and in accordance with stated performance standards.*

The Board's Decision with Reasons issued in the EB-2006-0205 proceeding states (page 2) in part:

Salient provisions of the new RMR Contract include:

- *One-year term, from October 1, 2006 to September 30, 2007, without renewal or extension (although it may be terminated by either party upon written notice);*

- *Estimated payments to OPG of $62 million over the contract term (comprised of OPG's fixed and variable costs for Lennox, a "margin amount" of $1.404 million, and additional revenues equivalent to 5% of the gross revenues earned by or attributed to Lennox in the IESO-administered markets);*

- *An obligation on OPG to offer into the IESO-administered markets the maximum amount of energy and operating reserve from Lennox in a commercially reasonable manner and in accordance with stated performance standards; and*

- *Rewards or penalties (neither to exceed $2 million) based on OPG exceeding or failing to meet agreed performance standards.*

Ref.: General, Application, Schedule D, Table 1

To the IESO's knowledge, does the current proposed agreement include a margin payment for OPG? If so, (i) what is the purpose of the margin payment, (ii) what is the amount of the margin payment, and (iii) how was the margin payment determined?

IESO Response:

There is no margin payment in this agreement.

2-VECC-2

Reference: Application, Attachment 4, IESO Technical Assessment and Application, Schedule D, Table 1

In addition to the IESO's technical assessment regarding delisting the subject facility, did IESO conduct any significant, independent financial assessment as to the reasonableness of the cost estimates provided by OPG and the revenues paid to OPG under the proposed agreement? If so, please elaborate.

IESO Response:

Through the negotiation of the agreement, the IESO did independently review the reasonableness of OPGI's cost estimates with OPGI. The IESO had the following objectives when reviewing the presented costs:

- Gain reasonable assurance that the contract only included costs that could be avoided within a reasonable timeframe, if the plant were to be deregistered;
- Ensure that the costs did not include those costs related to Thunder Bay Unit 2;
- Understand the OEB approved Centralized Support and Administrative Cost Allocation Methodology used for the allocation of direct and indirect costs to the RMR contract; and
- Gain a better understanding of the year-to-year changes by cost category.

Based on our meetings with OPG, the IESO gained an assurance that the costs were reasonable and allocated to the RMR contract appropriately.

3. What are the incentive effects, if any, of the reliability must-run agreement?

3-VECC-1

Reference: EB-2006-0205 Decision with Reasons, page 2 and Application, page 4, Penalties/Rewards Cap

In the cited Lennox R M-R proceeding, penalties/rewards were capped at $2M. In the current proceeding, penalties/rewards are capped at $500K. Please provide the reasons as to why the smaller cap is appropriate in IESO's view.

IESO Response:

The negotiated cap amount reflects the smaller size of the contracted facility (Lennox – Approx. Capacity = 2,000MW vs. Thunder Bay G3 = 153 MW) and the lower overall contract amount ($65M vs. $37M). We believe that the amount of this penalty/reward cap is reasonable and that the construct still provides an appropriate incentive for OPG to keep their facility well maintained.