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June 25, 2013

VIA RESS AND COURIER

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2013-0061 – Thunder Bay Generating Station Reliability Must-Run Agreement – OPG Argument

Attached please find the submission of Ontario Power Generation Inc. (OPG) in the above noted proceeding.

Pursuant to the Board's Procedural Order No. 2, provided are two (2) hardcopies of OPG's responses and one electronic copy filed through the Board's Regulatory Electronic Submission System (RESS).

Please direct any comments or questions in this matter to the undersigned.

Yours truly,

[*Original signed by*]

Andrew Barrett

Attach

cc: EB-2013-0061 Intervenors
Fred Cass, Aird & Berlis (email)
Carlton Mathias, OPG (email)

EB-2013-0061

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 a Reliability Must-Run contract entered into with the Independent Electricity System Operator in relation to OPG's Thunder Bay Generating Station;

SUBMISSION OF ONTARIO POWER GENERATION INC.

1. Ontario Power Generation Inc. ("OPG") has reviewed the submissions made by the following parties regarding its application for approval of a Reliability Must-Run ("RMR") Agreement for Thunder Bay Generating Station ("Thunder Bay"):

- Board Staff
- Building Owners and Managers Association – Greater Toronto ("BOMA")
- Canadian Manufacturers and Exporters ("CME")
- Energy Probe Research Foundation ("Energy Probe")
- The Northwestern Ontario Associated Chambers of Commerce (NOACC) and the Northwestern Ontario Municipal Association (NOMA), Common Voice Northwest (CVNW), combined with the City of Thunder Bay ("NOACC –NOMA")
- Power Workers' Union ("PWU")
- Vulnerable Energy Consumers Coalition ("VECC")

2. OPG notes that three of these parties support approval of the RMR Agreement as filed or at least see no reason that it should not be approved as submitted (i.e. NOACC-NOMA

supports approval of the Thunder Bay RMR application[1], the PWU submits that the Agreement is in compliance with the three issues identified on the Issues List[2], and Board Staff do not identify any reasons why the RMR Agreement should not be approved as submitted[3]). In addition, the IESO, through its interrogatory responses, indicated that it believed that the contract costs were reasonable and allocated to the RMR contract appropriately[4], that the penalty/reward cap is reasonable, and that the construct provides appropriate incentives for OPG to keep its facility well maintained[5].

3. Four parties, BOMA, CME, Energy Probe and VECC raise various issues regarding the amount of the Monthly Fixed Payment. But even among this group, no party submits that the RMR Agreement should not be approved in principle.

4. Furthermore, none of these parties have made a submission that the RMR Agreement does not comply with the Market Rules, OPG's licence or any of the conditions established by the Board. The submissions of parties who have raised issues about the RMR Agreement relate only to specific components of the Monthly Fixed Payment.

5. Before addressing the specific cost issues raised by the four parties, OPG notes that the RMR Agreement was the result of a negotiation process between OPG and the IESO, and that the IESO reviewed all of the amounts included in the Monthly Fixed Payment. The IESO is well-positioned to undertake this review, given its experience with previous RMR Agreements, and their familiarity with the circumstances and cost structure for this particular Agreement.

6. The Agreement, including its financial terms, represents an integrated negotiated package. Accordingly, OPG respectfully submits that caution should be exercised, in the

[1] Written Submission of NOACC Coalition, June 7, 2013, page 2.
[2] Power Workers' Union Submissions, June 7, 2013, paras. 15, 24, 48.
[3] Board Staff Submission, June 7, 2013, pages 2, 4, 10.
[4] Interrogatory Responses for the IESO, May 13, 2013, responses to CME interrogatory 2(c) and VECC interrogatory 2-VECC-2.
[5] Interrogatory Responses for the IESO, May 13, 2013, response to VECC interrogatory 3-VECC-1.

absence of a very clear reason for doing so, before making any changes to the Monthly Fixed Payment structure and quantum accepted by the IESO. Given the significant role played by the IESO, the Board can be confident that the overall package, as represented by the Monthly Fixed Payment, yields a reasonable result for ratepayers.

7. Below, OPG has fully addressed the issues raised by BOMA, CME, Energy Probe and VECC. And as a result, OPG submits that the Board can be satisfied that the Monthly Fixed Payment amount is reasonable and that the RMR Agreement should be approved as filed.

BOMA

8. BOMA submits that certain components of the proposed Monthly Fixed Payment (Attachment 1, Schedule D, Table 1) are not supported by OPG's evidence. It suggests that OPG provide a fuller explanation of these components in its reply argument.[6]

9. OPG would note that BOMA's concerns are mainly about year over year increases in certain cost components. Interestingly, none of the interrogatories submitted by the parties requested additional information on these increases. Nevertheless, OPG has provided the requested explanations below in order to provide the Board and the parties with a complete understanding of these increases. OPG submits that these explanations make it clear that the costs as proposed are reasonable and properly included in the RMR Agreement.

10. **Increase in "Labour"**

10.1 BOMA seeks additional information relating to the proposed increase in labour costs from 2012 Actual to 2013 proposed (from $16,060k to $17,311k. or +$1,251k), and the

[6] BOMA Submission, June 4, 2013, para. 2.

increase in its primary component "regular internal labour" (from $14,571k to $15,824k, or +1,253k). BOMA also requests that OPG clarify "banked time" and discuss whether it is a legitimate claim.

10.2 The cited increase in labour costs is shown on Tables 3 and 4 of OPG's response to CME Interrogatory No. 2(b). However, a closer analysis of Table 4 will show that the real increase in "Internal regular labour" is $855k and not $1,253k. The "Labour charged to projects" amount of $398k shown on Table 4 is actually part of "Internal regular labour" amount, but is broken out separately to accommodate the presentation format used in Schedule D, Table 1 of Attachment 1 in the RMR Agreement (Note: This format is consistent with the format used for previous Lennox RMR agreements.). The real increase in "Internal regular labour" is therefore a much smaller amount of $855k (i.e. $1,253k - $398k).

10.3 The main components of the $855k increase in "Internal regular labour" are as follows:

- a $510k increase due to the impact of a discount rate change on the portion of pension/OPEB (Other Post Employment Benefits) cost that is included in this amount via the Standard Labour Rate.

- a $221k increase due to pay rate increases for represented employees, in accordance with the arbitrated collective agreements.

  The discount rates used in determining the costs for pension and OPEB are based on AA corporate bond yields for the appropriate duration of the benefit obligation in accordance with Generally Accepted Accounting Principles (GAAP). The 2012 discount rate was 5.1%, and the 2013 rate used by OPG is 4.2%. This decrease in the discount rate translated into the $510k increase in the pension/OPEB related costs in

2013. Changes in the discount rate are beyond OPG's control, and the costing methodology used for the RMR is the same as that used for all of OPG's pension and OPEB costs and is the same one that has been reviewed by the OEB in OPG's rate applications.

- the remaining $121k is due to staff leave, including maternity leave.

10.4 "Banked time" occurs when employees who work overtime take time off with pay at a future date in lieu of being paid overtime. Allowing employees to "bank" this kind of time is a requirement under the terms of OPG's collective agreements, and reimbursement of the cost associated with banked time is a legitimate cost that should be recovered by OPG under the RMR Monthly Fixed Payment.

10.5 OPG submits that the increase in Labour costs is supported by the above explanations, which point to legitimate costs to OPG, and therefore should be fully reflected in the Monthly Fixed Payment.

11. **Increase in "Direct Assigned"**

11.1 BOMA cites the $1,419k increase in "Direct Assigned" costs (from $4,334k to $5,752k) noting that the increase is largely attributed to a change in the estimated discount rates, as indicated by OPG on Attachment 1, Table 3 of the response. BOMA suggests that OPG provide a fuller explanation for the increase.

11.2 The increase is nearly entirely due to changes in the discount rates used in determining projected benefit obligations and pension and OPEB costs. As described in paragraph 10.3 above, the 2012 discount rate was 5.1%, and the discount rate used by OPG for 2013 was 4.2%, or a decrease of 0.9%. The impact of this discount rate decrease represented the vast majority of the increase in Direct Assigned costs, subject to minor changes in other items included in the Direct Assigned costs. As noted above, changes in the discount rate are beyond OPG's control, and the costing methodology used for the RMR is the same as that used for all of OPG's pension and OPEB costs.

11.3 OPG submits that the increase in Direct Assigned costs is supported by the above explanations, and should be fully reflected in the Monthly Fixed Payment.

12. **Increase in "Central Support – BU Allocated"**

12.1 BOMA cites the $1,393k increase in Central Support – Business Unit costs (from $3,865k to $5,258k), noting that the increase is largely attributed to a Standing [sic] Labour Rate and Burden increase for corporate function staff, and normal attrition in 2012, as indicated by OPG on Attachment 1, Table 3 of the response. BOMA suggests that OPG provide further explanation of the increase.

12.2 While BOMA cites a $1,393k increase, a closer analysis of Table 3 will show that the true increase in Central Support – BU Allocated costs is in fact $420k, and not $1,393k. As an efficiency measure implemented during the 2013 business planning and budgeting process, OPG reduced the number of cost centres for budgeting purposes, effective 2013. Prior to this change, Finance and Human Resource employees located at site were budgeted in their own cost centres and these were reported on a line called "Corporate Functions at reliability must-run facilities", which is included on Table 3 with amounts of $973k for 2012 Actual and $0 for 2013. However, as a result of the 2013 change the Finance and Human Resource staff located at site are now included in the Central Support - BU Allocated line item. This is described on Table 3 where the explanation says "Rolled in to Central Support – BU Allocated". The true increase for 2013 is therefore $420k (i.e. $1,393k + ($973k)). The increase is mainly due to Standard Labour

Rate and burden rate increases related to support function staff, primarily due to discount rate changes as noted above.

13. In its submission, BOMA suggests that the Board consider reducing the amounts if there is no further justification provided by OPG. OPG submits that the explanations provided above clarify the actual amounts of the increases, and reflect a prudent approach to determining the amounts to include in the Monthly Fixed Payment, and that the Board should find them reasonable.

CME

14. CME submits that the Board should refrain from unconditionally approving the $37.972M annualized Monthly Fixed Payment (or $3.164M per month) because the amount is excessive. Below OPG responds to CME's specific claims, and shows that a prudent approach was used to determine the proposed payment amount, which OPG submits is reasonable.

15. In its submission, CME compares the first quarter costs for 2010 through 2013. CME calculates that the first quarter costs for 2010, 2011 and 2012 are roughly one quarter of the annual total. They then apply this ratio to OPG's proposed 2013 costs to arrive at an annual total which is about $3.5M less than the $37.972M amount included in the RMR Agreement. Then using an alternative methodology, CME compares OPG's 2012 forecast from its 2012-14 Business Plan to the proposed 2013 costs to arrive at a ratio of 1.0433, which is then applied to OPG's 2012 actual amount of $34.755M to arrive at a 2013 amount which is much closer to the amount in the RMR Agreement, but still $1.6M less. The wide variation of results arrived at by the two methods used by CME indicates the limited applicability and reliability of such analyses in determining 2013 costs.

15.1 In addition, the simplistic numerical comparisons used by CME do not reflect other changes. Changes from one year to the next reflect a combination of labour rate increases, inflationary impacts related to the cost of non-labour resources (materials and external purchased services) and variations in planned outage and project investments. The annualized Monthly Fixed Payment amount reasonably reflects planned 2013 work programs that are necessary to meet the provisions of the proposed RMR Agreement.

15.2 More importantly, the relationship of first quarter costs to annual cost for 2010 through 2012 does not necessarily apply to 2013 costs. While the Monthly Fixed Payment is determined by dividing the annual total by 12 months, this does not mean that 2013 costs are spread out evenly through the year, and in fact they are not. As noted in OPG's response to Board Staff interrogatory No. 5:

> *"This calculation does not reflect the variability of the planned expenditures during the year. The cause of the variability is driven largely by the timing of execution of projects."*

15.3 Expenditures during the year are impacted by planned outage schedules and the timing of project spending, which results in uneven spending through the year. As such, prorating/extrapolating Q1 expenditures to the remaining three quarters of the year does not reflect the timing of execution of work programs and anticipated spending patterns.

16. CME further suggests that the Board adopt a cost savings incentive "cap" of $500,000, similar to the performance standards cap. As noted in OPG's application (section 4(d)(1.)), one of the negotiated improvements to the previous contract structure used in the Lennox RMR agreements was to incorporate a monthly fixed payment based on a mutually agreed forecast of fixed costs, to provide an increased incentive for OPG to manage its costs within agreed levels.

16.1 Further, the IESO indicated the following in its response to VECC Interrogatory No. 2-VECC-2:

"Through the negotiation of the agreement, the IESO did independently review the reasonableness of OPGI's cost estimates with OPGI."

16.2 Given that the costs covered by the RMR Agreement are the product of a negotiated agreement as to approach and quantum, and given that the IESO has independently reviewed the reasonableness of OPG's cost estimates, OPG submits that a cost savings incentive cap as suggested by CME is unnecessary and inappropriate.

17. In summary, OPG submits that the above OPG submissions addressing the issues raised by CME reflect a prudent approach to determining the Monthly Fixed Payment, and that the Board should find the amount reasonable.

Energy Probe

18. Energy Probe submits that OPG's understanding and use of the avoidable cost test is wrong. This view is based largely on their interpretation of minor wording differences between OPG's initial response to Energy Probe interrogatory No. 1(b), and the response provided to their follow-up question regarding the same interrogatory.

18.1 OPG's initial response to Energy Probe interrogatory No. 1(b) stated:

"If a cost was deemed reasonably avoidable within a period of one to two years following shutdown of the plant then it was considered variable …"

18.2 OPG did not provide a specific time period for each cost item, but rather provided a generalized "one to two years" period for all items. Energy Probe's follow-up question[7] merely asked for more detail regarding the time periods, as follows:

[7] Letter from David S. MacIntosh to Mr. Andrew Barrett dated May 27, 2013, titled "Information Request to Ontario Power Generation".

"... Rather, Energy Probe simply requested the specific time period used to classify each of the 10 costs in Table 1 as avoidable. Accordingly, Energy Probe requests that OPG provide the ten time periods used for the ten cost items in Table 1."

18.3 In its follow-up response, OPG provided the specific time period used for each line item, which in most instances was one year following shut down of the plant. However, the provision of greater specification does not mean that OPG's conceptual basis had changed from the initial response. Both responses characterized the avoidability test as being based on a time period, and the follow-up response simply provided a specific time period for each line item in place of the generalized time period initially provided. Energy Probe's assertion that minor wording changes in the follow-up response are indicative of a fundamental misunderstanding of the test is unfounded.

18.4 The objective of the test is straightforward – to determine those costs OPG must recover during the RMR period that it could otherwise avoid if there were no RMR contract. OPG submits that its methodology for determining costs to be included in the Fixed Monthly Payment yielded the correct result, and that it is essentially the same test as described by Energy Probe in its submission regarding basic economic concepts, despite differences in wording used by OPG to describe how it was performed. It is also important to understand that the test was performed in the context of a facility that is otherwise expected to cease operation in its current configuration in the near term following the completion of the RMR contract.

18.5 OPG submits that the above submissions regarding issues raised by Energy Probe regarding OPG's understanding and use of the avoidable cost test indicate that the test was applied correctly.

19. Energy Probe makes further submissions regarding the avoidability of specific line items. OPG makes the following replies with respect to these items:

20. **Labour ($17.3M)**

20.1 Energy Probe submits that only the labour costs associated with planned discharges arising from a hypothetical shutdown can be properly classified as avoidable, citing retirements and the movement of existing labour to other activities within OPG.

20.2 OPG submits that depending on the demographics of the employees at the plant, the labour cost would be avoided either through the coal closure provisions in the collective agreements or through relocation to other plants to fill vacant positions, to allow for knowledge transfer, or to displace other planned resources such as overtime, temporary labour, or contracted labour. These relocation scenarios qualify the cost as "avoidable" because if the Thunder Bay GS staff were not made available by closure of the plant, OPG would have to obtain the resources through other means. Retirements are also included in the avoidable category because had the plant been a going concern, OPG would have had to fill the vacancies created by the retirements.

21. **Direct Assigned ($5.8M)**

21.1 Energy Probe submits that the avoidability of these costs is unclear because the cost is not sufficiently described.

21.2 As discussed in paragraph 11.2 above (for BOMA), Direct Assigned costs consist largely of projected benefit obligations and pension and OPEB costs. The discount rates used in determining projected benefit obligations and pension and OPEB costs are based on AA corporate bond yields for the appropriate duration of the benefit obligation in accordance with Generally Accepted Accounting Principles (GAAP). These costs are avoidable on the same basis as the station labour cost.

22. **Business Unit Support-Direct ($0.4M)**

22.1 Energy Probe submits that this activity is not described in sufficient detail and that how these costs would be avoided is not indicated, noting that if these costs are simply re-allocated to other support functions with no corresponding increase in activity, they should not be considered avoidable.

22.2 OPG submits that these are largely labour costs for centralized support employees who are engaged in work associated with the plant. These costs are avoidable on the same basis as the station labour cost.

23. **Central Support-BU Allocated ($5.3M)**

23.1 Energy Probe submits that these costs appear to be costs previously allocated to the Generating Station that would be re-allocated elsewhere following a hypothetical shutdown, and should not be considered avoidable.

23.2 OPG submits that these are largely labour costs for support employees budgeted at the OPG-level on a centralized basis, but who are engaged in work associated with the plant. These costs are avoidable on the same basis as the station labour cost.

24. **Materials ($1.2M)**

24.1 Energy Probe is in agreement with OPG that these costs are properly considered avoidable.

25. **Other ($4.3M)**

25.1 Energy Probe submits that while the majority of these costs are avoidable, a portion of the remaining costs are apparently "related to staffing" and that Energy Probe's submissions regarding Labour (referenced in paragraph 20.1 above) apply to these costs. Energy Probe adds that OPG indicates that another portion of costs depends "on the future of the plant but would cease immediately if the plant were de-commissioned upon plant closure". Energy Probe further submits that it appears that such costs would not be avoided following plant closure, but would continue until de-commissioning, and are therefore not avoidable before plant closure or between closure and de-commissioning.

25.2 OPG's interpretation of this submission is that Energy Probe agrees that costs that are directly associated with work execution are avoidable, but challenges the portion of costs associated with staffing on the same basis that they challenged the labour cost. OPG clarifies that the staffing portion of the costs are for requirements such as travel, training and meals, and are avoidable on the same basis as provided by OPG in paragraph 20.2 above regarding labour costs.

26. **Projects ($0.98M)**

26.1 Energy Probe is in agreement with OPG that these costs are properly considered avoidable.

27. **Insurance ($0.8M)**

27.1 Energy Probe submits that if decommissioning is co-terminus with closure, then insurance costs are avoidable, and if not, then avoidability does not occur until decommissioning. Referencing OPG's statement that insurance costs would cease if the property were sold, Energy Probe submits that insurance costs are escapable only after some period of time following shutdown and accordingly are sunk rather than fixed.

27.2 OPG agrees with Energy Probe that absolute cost avoidability depends on the time period involved in selling the property, which is subject to many variables. OPG submits, however, that this does not change the fact that insurance cost is avoidable and further, that proper insurance coverage is a key element of good utility practice in the operation of a generating facility. OPG further submits that the amount of insurance carried would immediately decrease upon permanent closure of the plant, which is the base case against which cost avoidability is measured.

28. **Property Taxes ($1.67M)**

28.1 Energy Probe submits it is not clear how OPG could reduce its property tax cost following a hypothetical closure, because it would continue to own the plant, noting that if it could reduce the tax liability within a short time following closure, that reduction of tax would be avoidable. Energy Probe further questions the magnitude of the tax reduction and the sale conditions under which avoidability would occur.

28.2 OPG submits that if the plant is permanently shut down, the component of property tax that is based on the structures can be eliminated on the date the plant is taken out of service. The avoidability concept is applied against a base case of permanent closure, decommissioning and land sale which OPG believes could be achieved in a reasonable period of time, and that this approach is consistent with the "avoidable" cost negotiated with the IESO.

29. **Financing Cost on Working Capital ($0.3M)**

29.1 Energy Probe submits that OPG claims avoidability because this cost would be eliminated immediately upon closure, because the coal inventory and the materials/supply inventory would be run down to zero value. They further submit that OPG's explanation misconstrues the test, which asks whether the financing charges would continue after a hypothetical shutdown, not an actual shutdown the timing of which is under management control.

29.2 OPG submits that through market mechanisms, OPG would have sufficient foreknowledge of closure to enable it to draw down the coal inventories through the market bidding process. Similar circumstances would apply with respect to acceleration of materials and supply inventory obsolescence.

30. OPG submits that the above submissions regarding issues raised by Energy Probe regarding the avoidability of specific line items reflect a prudent approach to determining the Monthly Fixed Payment, and that the Board should find the amount reasonable.

31. **Relevant Time Period**

31.1 In one part of its argument, Energy Probe suggests that the relevant time period for the avoided costs test should be one year following shutdown[8]. In another, it takes a more pragmatic view saying that "*Since the relevant time period is not established by economic theory, the regulator must use its discretion while avoiding an arbitrary decision. In short, the relevant time period must be reasonable in the circumstances.*"[9]

[8] Energy Probe – Submissions, June 7, 2013, item 6.
[9] Energy Probe – Submissions, June 7, 2013, item 2c.

31.2 OPG submits that the time periods used for the RMR avoided cost test are consistent with what Energy Probe proscribes – that is, they reflect the practical circumstances in play for the various cost components of the Monthly Fixed Payment. The time periods used were provided in OPG's follow-up response to Energy Probe Interrogatory No. 1(b). These different time periods (mostly one year or immediately upon plant closure) were reflective of the time OPG expects it would take to practically eliminate each type of cost.

31.3 OPG submits that the time periods selected for the determination of the costs included in the Monthly Fixed Payment are reasonable, as they are based on a forecast of when certain events are expected to occur, rather than arbitrary periods.

32. OPG submits that the above submissions regarding issues raised by Energy Probe reflect a prudent approach to determining the Monthly Fixed Payment, and that the Board should find the amount reasonable.

VECC

33. VECC expresses concerns with respect to avoided costs, with particular regard to property tax and central support services. In items 4 and 5 of its submission, VECC notes that the costs that would be avoided by OPG if the facility were de-registered depend on the actions that OPG would take in respect of the facility subsequent to de-registration.

34. For clarity, OPG reiterates its avoided cost methodology, from OPG's response to Energy Probe interrogatory 3-Energy Probe-2 (a):

"From there, a methodology was applied to each cost line item to determine if the costs were fixed or variable in nature.
Costs deemed as fixed, i.e. those which would be expected to continue regardless of the nature of operations at Thunder Bay GS, were excluded from the RMR costs. Those costs

deemed as variable and incurred due to the operation of Thunder Bay GS were included in the RMR costs. Such variable costs would be expected to be eliminated in a reasonable period of time following the closure of Thunder Bay GS …"

35. OPG submits that while the avoidability test is imperfect, it was seen as an appropriate means to determine which costs are fixed vs. variable in the case of Thunder Bay GS Unit 3, and was subject to due diligence by the IESO. While the avoidability test considers the future use of the plant, the end objective remains to determine which costs will be incurred by OPG to continue operating the plant during 2013 to accommodate the RMR Agreement. The majority of the costs remain avoidable (or "variable", and therefore recoverable under the Monthly Fixed Payment) regardless of the assumptions about the plant's future, and are required to make the plant available during the RMR term.

36. In items 7 through 11 of its submission, VECC submits that property taxes will not be avoided after de-registration and suggests that this component of the Monthly Fixed Payment should be reduced. OPG submits that property taxes meet the avoidable cost test in the sense that they decline if there is no operation on site and disappear if the site is sold. Also, this cost must be incurred by OPG during the RMR term in order to be legally compliant for generation, which the RMR requires.

37. In item 9, VECC states that property taxes would be completely avoided upon sale of the property. OPG agrees with this statement and that is in fact why the cost is fully recoverable under the RMR, as the test is that if the cost is avoidable, it should be fully recovered.

38. With regard to VECC's items 12 through 15 regarding central support costs, OPG submits that economies of scale from centralization are already inherent in the central

support costs which are allocated to the plant, which makes the total cost of the services less. OPG then allocates a direct portion of the smaller pie to the plant. Whether or not there are economies of scale achieved by centralizing does not impact the extent to which the direct portion allocated to the plant is avoidable. OPG also notes that, as described in OPG's response to Energy Probe interrogatory 3-Energy Probe-2 (a), the cost of this item was already reduced to reflect costs which were not deemed avoidable, as follows:

"This particular cost line item, Central Support-BU Allocated, includes certain IT system costs which were excluded from the RMR because they were deemed fixed in nature, and would not be expected to be eliminated if Thunder Bay GS were closed. Similarly, Business Development costs associated with possible conversion of the plant to a fuel other than coal have been excluded from the RMR. In addition, other cost line items from the fully allocated cost report have been completely excluded from the RMR because the costs are considered fixed."

39. In item 14 of its submission, VECC acknowledges that it does not have sufficient evidence regarding the scale economies in OPG's current central support organization, but suggests that a 10 percent reduction of the "Central Support – BU Allocated" amount would be reflective that there are material scale economies associated with provision of central support services. OPG submits that the suggested reduction is arbitrary and inconsistent with the above submissions of OPG regarding the prudent methodology used to arrive at the amount for this item.

40. OPG submits that the explanations provided above regarding issues raised by VECC reflect a prudent approach to determining the property tax and allocated central support services amounts included in the Monthly Fixed Payment, and that the Board should find them reasonable.

Summary

41. No parties have made submissions indicating that they believe the Board should withhold approval of the RMR Agreement in principle. Concerns raised by some parties regarding the amount of the Monthly Fixed Payment have been addressed above, and in OPG's submission, these submissions provide justification to support the $3,164k monthly payment included in the RMR Agreement.

42. In addition, no parties have made submissions indicating that the RMR Agreement does not comply with OPG's Generation Licence, and no parties have made submissions indicating that the incentive provisions of the RMR Agreement with regard to OPG's offering behaviour are inappropriate.

43. Subject to the improvements negotiated between OPG and the IESO, the Thunder Bay RMR agreement is similar in most material aspects to the RMR agreement for OPG's Lennox Generating Station ("Lennox GS") approved by the Board in December 2008 (EB-2008-0298), and previously approved RMR agreements for Lennox GS (EB-2005-0490, EB-2006-0205, and EB-2007-0715). The negotiated improvements provide for a fixed monthly payment based on a mutually agreed forecast of fixed costs, with certain variable generation costs being recovered through IESO energy market revenues, and a revenue sharing mechanism which results in a smaller incentive to OPG while maintaining a sufficient incentive to offer the unit efficiently into the IESO market.

44. OPG submits that the agreement for which approval is being sought satisfies the OEB's assessment criteria as did the previous Lennox RMR agreements approved by the OEB, but with improvements to the contract terms.

45. OPG submits that the Board should conclude that the Thunder Bay RMR Agreement complies with OPG's Licence and the Market Rules, and that the financial provisions of the RMR agreement are reasonable, and approve the Agreement as filed.

46. In the event that the Board is not satisfied that the financial provisions of the RMR Agreement are reasonable, OPG respectfully requests that the Board approve the Agreement with conditions, outlining the changes to be made to make it fully compliant with these provisions. Approval with conditions would enable OPG and the IESO to execute in a timely manner a revised agreement, which would address any concerns that the Board may have. OPG submits that requiring OPG to re-negotiate the Agreement with the IESO and return to the Board to seek approval for a new agreement, could result in undue delay, higher regulatory costs, and would not be in the public interest.

47. Finally, OPG reiterates that the financial terms of the contract represent an integrated negotiated package, and OPG respectfully submits that it would be inappropriate to modify particular elements of the overall package if the Board is satisfied that the package as a whole yields a reasonable result.

All of which is respectfully submitted,

[*Original Signed by*]

Andrew Barrett

Vice President, Regulatory Affairs