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February 28, 2014

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
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Dear Ms. Walli:

**Re: Board File No.: EB-2013-0321**  
**Independent Electricity System Operator Interrogatories to Ontario Power Generation Inc.**

Please find attached the Independent Electricity System Operator's ("IESO") interrogatories to Ontario Power Generation Inc. ("OPG") in their 2014 – 2015 Payment Amounts application, EB-2013-0321. Two (2) hard copies of these interrogatories have been sent by courier to your attention.

Yours truly,

*Original Signed by*

Tam Wagner, P. Eng.  
Senior Regulatory Analyst  
Independent Electricity System Operator

cc (email only):      Colin Anderson, OPG  
                              Carlton D. Mathias, OPG  
                              Charles Keizer, Torys LLP  
                              All intervenors

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*;

**AND IN THE MATTER OF** an Application by Ontario Power Generation Inc. for an order or orders approving payment amounts for prescribed generating facilities commencing January 1, 2014

**Independent Electricity System Operator ("IESO") Interrogatories to  
Ontario Power Generation Inc. ("OPG")**

**Issue 5.3**

**Has the incentive mechanism encouraged appropriate use of the regulated hydroelectric facilities to supply energy in response to market prices?**

5.3-IESO-1. *Overall Use of the Beck PGS and Newly Regulated Hydroelectric Facilities*  
Ref.: Exhibit E1 Tab 2 Schedule 1 Section 4.0 page 4 lines 10-12

In this section, OPG discusses the operation of the PGS during SBG conditions. Specifically, OPG states:

*OPG operates the PGS taking into consideration market price signals, the availability of the PGS, the capacity of the PGS reservoir, and hydrological limitations.*

The IESO is looking to better understand how OPG's strategies to operate the PGS and the newly regulated hydroelectric facilities in an economically efficient manner are influenced by market price signals.

- (a) How do the expectations of price spreads affect OPG's operational strategy for the PGS and the newly regulated hydroelectric facilities? Specifically, in 2013, what was the expected on- and off-peak price spreads that would induce a pumping decision for the PGS and, for the newly regulated hydroelectric facilities, induce a decision to generate or not generate?
- (b) How have these expected price spreads compared to the actual price spreads that materialized over the 2013 time period?

**Issue 5.4**

**Is the proposed new incentive mechanism appropriate?**

5.4-IESO-2. *Proposed Changes to the HIM*  
Ref.: Exhibit E1 Tab 2 Schedule 1

OPG proposes to make changes to the hydroelectric incentive mechanism and the incentive revenue sharing between OPG and ratepayers.

- (a) Please describe the high-level principles driving the proposed changes to the existing HIM and the incentive revenue sharing, including the role of the X-factor.

5.4-IESO-3. *Alternatives*

Ref.: Exhibit E1 Tab 2 Schedule 1 Section 5.3

In this section, OPG provides a high-level description of alternative incentive mechanisms considered. As the IESO's interest is in ensuring that OPG's assets respond efficiently to market signals, the IESO is looking to better understand how OPG's assets would respond under the various alternatives assessed.

- (a) Compared to eHIM, describe how the operation of the previously regulated and newly regulated hydroelectric facilities would differ under each the HIM, eHBF and IM.

5.4-IESO-4. *Incentive Revenue Sharing*

Ref.: Exhibit E1 Tab 2 Schedule 1 Section 6.2 lines 8-9

OPG proposes an adjustment to the eHIM net revenue to maintain the 50/50 sharing of net incentive revenues established in EB-2010-0008. The IESO is looking to understand how a different incentive revenue sharing mechanism would affect OPG's operation of their regulated hydroelectric assets.

- (a) How would OPG's operation of the previously and newly regulated hydroelectric facilities change if the proposed sharing of net incentive revenues was, for example, 90/10 or 10/90 OPG/ratepayers?
- (b) Did OPG contemplate separate incentive revenue sharing mechanisms for the previously regulated hydroelectric facilities and the newly regulated hydroelectric facilities? For example, maintaining a 50/50 incentive revenue sharing mechanism for the previously regulated hydroelectric facilities but introducing a 75/25 or 90/10 incentive revenue sharing mechanism for the newly regulated hydroelectric facilities.
  - i. If yes, please explain why this concept was dismissed.
  - ii. If no, how would such an incentive sharing mechanism affect OPG's operation of their previously and newly regulated hydroelectric facilities.

5.4-IESO-5. *X-Factor*

Ref.: Exhibit E1 Tab 2 Schedule 1 Section 6.2

OPG indicates that the purpose of the X-factor is to maintain the 50/50 sharing of cost savings to consumers. The calculation of the X-factor itself is based on an estimated reduction of customer costs of \$36 million in each 2014 and 2015. The IESO would like to better understand the effects the estimated reduction of customer costs has on the X-factor.

- (a) What happens to the X-factor if the estimated customer cost reduction is less than or greater than \$36 million? Is the X-factor a static value or will it be adjusted based on the actual reduction in customer costs?
- (b) If actual incentive payments to OPG are less than or greater than the estimated \$18 million, how does OPG propose to reconcile this difference?