



EB-2006-0233

IN THE MATTER OF sections 25.20 and 25.21 of the
Electricity Act, 1998;

AND IN THE MATTER OF a Submission by the Ontario Power
Authority to the Ontario Energy Board for the review of its
proposed expenditure and revenue requirements and the fees
which it proposes to charge for the year 2007.

BEFORE: Gordon Kaiser
Presiding Member and Vice Chair

Paul Vlahos
Member

Bill Rupert
Member

ORDER

On November 1, 2006, the Ontario Power Authority (the “OPA”) filed with the Ontario Energy Board (the “Board”) its proposed 2007 expenditure and revenue requirement and fees for review pursuant to subsection 25.21(1) of the *Electricity Act, 1998* (the “Act”). Pursuant to subsection 25.21(2) of the Act, the OPA sought the following approvals from the Board:

- the continuation of the registration fees paid by proponents in all competitive procurement processes as approved by Board Order in EB-2005-0489;
- approval of a usage fee of \$0.372/MWh;
- if necessary, interim approval of the usage fee of \$0.372/MWh effective January 1, 2007;

- approval of its proposed 2007 revenue requirement of \$57.023 million which is comprised of its operating budget of \$57.423 million, less forecast revenue of \$400,000 from registration fees;
- approval of proposed 2007 capital expenditures of \$2.885 million;
- approval of establishment of the 2007 Retailer Contract Settlement Deferral Account; and
- all necessary orders and directions, pursuant to the *Ontario Energy Board Act, 1998* and the Board's Rules of Practice and Procedure, as may be necessary in relation to this submission and execution of the approvals requested in the OPA's 2007 Business Plan.

In addition to the establishment of a 2007 Retailer Contract Settlement Deferral Account, the OPA also requested that previously approved deferral accounts be maintained for one more year. The OPA proposed that the disposition of the balances in these accounts be dealt with by way of its 2008 Revenue Requirement Submission (the "2008 RRS"). These deferral accounts, which were approved in the 2006 OPA Revenue Requirement proceeding, are as follows:

- 2005 Retailer Contract Settlement Deferral Account;
- 2006 Retailer Contract Settlement Deferral Account;
- Government Procurement Costs Deferral Account; and
- Retailer Discount Settlement Deferral Account.

In a letter dated January 12, 2007 the OPA requested that a 2007 Forecast Variance Deferral Account be established to capture revenue variances for disposition in the 2008 RRS. In this same letter, the OPA also requested that any 2006 revenue variances be recovered by way of this account. As part of the Settlement Proposal filed January 22, 2007 the OPA proposed that the remaining \$0.8 million of the estimated shortfall of \$1.6 million carried over from 2006 be recorded in the 2007 Forecast Variance Deferral Account and that any difference between the estimated shortfall of \$1.6 million and the actual 2006 shortfall also be recorded in this deferral account.

The Board issued a Notice of Application dated November 20, 2006 with respect to this proceeding and the Notice was published on November 24, 2006.

On December 14, 2006 the Board issued an Interim Rate Order and Procedural Order

No. 1 setting out timelines for an Issues Conference, Technical Conference and a Settlement Conference and approving an Interim Rate effective January 1, 2007 sufficient to recover a revenue requirement of \$57.023 million, pending a final decision in this proceeding.

On December 21, 2006 the Board issued Procedural Order No. 2 in which the Board approved an Issues List.

A Technical Conference was held on January 8 and 9, 2007 and a Settlement Conference took place January 15 and 16, 2007.

On January 11, 2007 the Board issued Procedural Order No. 3 and set January 17, 2007 as the date for filing any settlement proposal, which date was later delayed to January 22, 2007 by Procedural Order No. 4.

In accordance with Procedural Order No. 5 issued January 23, 2007, the Applicant presented the Settlement Proposal to the Board on January 26, 2007 and the Applicant and parties responded to the Board's questions regarding that Settlement Proposal. All parties had come to a complete settlement on the following issues:

- Issue 2 – Power System Planning Operating Budget
- Issue 3 – Supply Procurement and Contracting Operating Budget
- Issue 5 – Building Organizational Capacity Operating Budget
- Issue 6 – General

The following issues were not completely settled by the parties:

- Issue 1 – Conservation and Demand Management Operating Budget
- Issue 4 – Sector Development Operating Budget

On the consent of all active parties, the Board heard argument with respect to Issue 4 (Sector Development Operating Budget) on January 26, 2007. The Board issued an oral decision on the same day. That decision can be found at pages 50 and 51 of the Board's transcript of the proceedings in this matter (EB-2006-0233) dated January 26, 2007.

At the proceeding on January 26, 2007, the Board reserved its decision whether to approve the settled issues.

On January 26, 2007, Board Member Rupert posed a question with respect to a matter falling under Issue 6, which the OPA was not in a position to answer on that day. The OPA filed a written answer with the Board on January 30, 2007. The Board posed a written follow-up question to the OPA on February 5, 2007 which was copied to all parties. The OPA's response to that question was filed February 9, 2007 by the OPA.

On February 8, 2007 the Board issued a Decision and Procedural Order No. 6 reflecting the events at the January 26, 2007 settlement presentation, accepting the settlement of Issues 2, 3 and 5 as agreed by the parties and setting out dates for an oral hearing to hear argument regarding Issue 1 and potentially Issue 6.

On February 14, 2007, the OPA advised that it had reached agreement with all parties on the settlement of Issue 1 and it filed a Supplemental Settlement Proposal with the Board reflecting this agreement.

The Supplemental Proposal was presented to the Board on February 15, 2007 and the OPA and Intervenors responded to questions from the Board Panel at that time. On that same day, the Board issued an oral decision in which a majority of the Board panel accepted the Supplemental Settlement Proposal and the full Board panel accepted the previous settlement of Issue 6, subject to certain conditions. The Board's decision, including the minority decision of member Vlahos on the issue of the acceptance of the Supplemental Settlement Proposal which addressed Issue 1 can be found at pages 9 to 18 of the Board's transcript of the proceedings in this matter (EB-2006-0233) dated February 15, 2007.

The Settlement Proposal and the Supplemental Settlement Proposal are attached hereto as Appendix A.

THE BOARD THEREFORE ORDERS THAT:

1. A final usage fee of \$0.372/MWh is approved;
2. The proposed continuation of registration fees paid by proponents in all competitive procurement processes in the amounts established by Board Order in EB-2005-0489 of \$10,000 per proposal for electricity supply and capacity procurement, \$2,500 per proposal for demand response procurement and \$500 per proposal for all other competitive procurement processes is approved;

3. The OPA's proposed 2007 revenue requirement of \$57.023 million which is comprised of its operating budget of \$57.423 million, less forecast revenue of \$400,000 from registration fees is approved;
4. The OPA's proposed 2007 capital expenditures of \$2.885 million are approved;
5. The proposal to establish a 2007 Retailer Contract Settlement Deferral Account is approved; and
6. The proposal to establish a 2007 Forecast Variance Deferral Account to capture revenue variances for disposition in the context of the OPA's 2008 Revenue Requirement Submission and to record any cost variance between actual 2006 expenses and the Board-approved revenue requirement for 2006 that is not incorporated into the OPA's 2007 revenue requirement is approved.
7. The OPA shall upon receipt of the Board's Cost Orders pay eligible intervenors 100 % of their reasonably incurred costs as determined in the Board's cost claim process.
8. The Board's costs of and incidental to this proceeding shall be paid by the OPA upon the receipt of the Board's invoice.

ISSUED at Toronto March 5, 2007

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary

APPENDIX A TO ORDER

Board File No. EB-2006-0233

Dated March 5, 2007

SETTLEMENT PROPOSALS

SETTLEMENT PROPOSAL

January 22, 2007

TABLE OF CONTENTS

<u>Issue</u>	<u>Description</u>	<u>Page</u>
1.	Strategic Objective #1 – Conservation and Demand Management (CDM) Operating Budget	6-7
1.1	2007 Operating Budget	
a)	Is the budget reasonable and appropriate?	
1.2	2007 Program Activities	
a)	Are the management and administrative systems the OPA has put in place to accommodate the 2007 CDM program reasonable and appropriate?	
b)	Has the OPA used appropriate method and techniques in the design of its 2007 CDM program?	
1.3	LDC CDM Initiatives (July 13, 2006 Directive)	
a)	Is the OPA's allocation of its operating costs reasonable and appropriate for the direction and oversight of the LDC CDM initiatives.	
1.4	Division of Conservation Roles and Activities	
a)	Are the costs and revenue requirement implications of the new organizational structure put into place by the OPA to provide oversight for CDM activities reasonable and appropriate?	
1.5	Conservation Fund Activities	
a)	Is the oversight structure that the OPA has put in place for the conservation Fund reasonable and appropriate?	
2.	Strategic Objective #2 Power System Planning Operating Budget	8
2.1	2007 Operating Budget	
a)	Is the budget reasonable and appropriate?	
2.2	Development of IPSP for OEB approval	
a)	Are the management and administrative systems the OPA has put in place to accommodate the 2007 System Planning program reasonable and appropriate?	

TABLE OF CONTENTS

<u>Issue</u>	<u>Description</u>	<u>Page</u>
3.	Strategic Objective #3 Supply Procurement and Contracting Operating Budget	9
3.1	2007 Operating Budget	
a)	Is the budget reasonable and appropriate?	
3.2	Contract Management	
a)	Is the use of an interim in-house system to handle financial settlements and contract management reasonable?	
b)	Has the OPA used appropriate methods and techniques in the design and operation of its contracting/procurement program?	
4.	Strategic Objective #4 Sector Development Operating Budget	10
4.1	2007 Operating Budget	
a)	Is the budget reasonable and appropriate?	
4.2	Coordination of OPA's Activities with the IESO and the OEB	
a)	Is there any overlap or duplication of activities? Are there opportunities for OPA efficiency improvement?	
b)	How is the OPA respecting the distinction between its statutory role and that of the IESO and coordinating its activities in respect thereof?	
5.	Strategic Objective #5 Building Organizational Capacity Operating Budget	11-13
5.1	2007 Operating Budget	
a)	Is the budget reasonable and appropriate?	
b)	Are the proposed capital expenditures for 2007 reasonable and appropriate?	
5.2	Human Resources	
a)	Is the design and structure of the OPA's compensation system reasonable and appropriate?	
5.3	Finance	
a)	Are the OPA's staff costs reasonable given the skills and experience required?	

TABLE OF CONTENTS

<u>Issue</u>	<u>Description</u>	<u>Page</u>
5.3	Finance	
a)	Are the OPA's staff costs reasonable given the skills and experience required?	
b)	Are the consulting fees incurred by the OPA reasonable and appropriate given the staff increases in the organization?	
c)	Budget information vs. actual spending amounts in the financial information provided in the Application.	
5.4	Deferral Accounts	
a)	What is the appropriate treatment regarding the Retailer Contract Settlement Deferral Accounts?	
b)	Clearing of Government Procurement Costs Deferral Account	
6.	General	13-14
6.1	Proposed Usage Fee	
a)	Is the design of the proposed usage fee appropriate?	
b)	Mechanism for adjustment with respect to any difference between interim and final approved fee.	
6.2	Stakeholder Consultation	
a)	Are the OPA's plans for 2007 stakeholder consultation appropriate?	
6.3	EB-2005-0489 Settlement Agreement	
a)	Has the OPA complied with the provisions of the 2006 RRS Settlement Agreement?	

This Settlement Proposal is filed with the Ontario Energy Board ("OEB") in connection with the 2007 Expenditure and Revenue Requirement Submission ("2007 RRS") of the Ontario Power Authority, filed November 1, 2006 under sections 25.20 and 25.21 of the *Electricity Act, 1998*. A Settlement Conference was held on January 15 and 16, 2007 in accordance with the *Ontario Energy Board Rules of Practice and Procedure* (the "Rules") and the *Ontario Energy Board Settlement Conference Guidelines* ("Settlement Guidelines"). This Settlement Proposal arises from the Settlement Conference.

The Ontario Power Authority (the "OPA") and the following intervenors listed alphabetically (collectively, "the parties"), and the OEB technical staff ("Board Staff"), participated in the Settlement Conference:

Association of Power Producers of Ontario (APPrO)
Consumers Council of Canada (CCC)
Energy Probe Research Foundation (Energy Probe)
Green Energy Coalition (GEC)
Ontario Power Generation (OPG)
Pollution Probe
Power Workers' Union (PWU)
Vulnerable Energy Consumers Coalition (VECC)

The Settlement Proposal represents the positions of the intervenors on the issues listed in the Table of Contents and the Issues List attached as Appendix "A" to the OEB's Procedural Order #2, dated December 21, 2006 (the "Issues List"). The numbers given to each of the issues correlate to the sections in the Settlement Proposal and each issue is categorized under one of the following descriptions:

Complete Settlement – the issue will not be addressed at the hearing because the OPA and all intervenors who take a position on the issue agree to the proposed settlement;

Incomplete Settlement – aspects of the issue will be addressed at the hearing because the parties are only able to agree on some, but not all, parts of the issue.

The categorization of each issue assumes that all intervenors participated in the negotiation of an issue, unless specifically noted otherwise. Any intervenors that are identified as not having participated in the negotiation of that issue also take no position on any settlement or other wording pertaining to the issue. In accordance with the Rules and the Settlement Guidelines, Board Staff takes no position on any issue and, as a result, is not a party to the Settlement Proposal.

The Settlement Proposal describes the agreements reached on the settled issues. The Settlement Proposal identifies the intervenors who agree with each settlement, or who take no position on the issue. The Settlement Proposal lists the evidentiary references for each issue. Therefore the intervenors who are in agreement with any settled issue(s) believe that the evidence provides sufficient information to support their views to support the Settlement Proposal and combined with the rationale for settlement, will assist the OEB in its decision making on those issues.

1. Strategic Objective #1 – Conservation and Demand Management (CDM) Operating Budget

1.1 2007 Operating Budget

- a) Is the budget reasonable and appropriate?

1.2 2007 Program Activities

- a) Are the management and administrative systems the OPA has put in place to accommodate the 2007 CDM program reasonable and appropriate?
- b) Has the OPA used appropriate method and techniques in the design of its 2007 CDM program?

1.3 LDC CDM Initiatives (July 13, 2006 Directive)

- a) Is the OPA's allocation of its operating costs reasonable and appropriate for the direction and oversight of the LDC CDM initiatives.

1.4 Division of Conservation Roles and Activities

- a) Are the costs and revenue requirement implications of the new organizational structure put into place by the OPA to provide oversight for CDM activities reasonable and appropriate?

1.5 Conservation Fund Activities

- a) Is the oversight structure that the OPA has put in place for the conservation Fund reasonable and appropriate?

Evidence: The evidence in relation to this issue includes the following:

A-6-1 2006 CECO Annual Report

A-7-1 Organization Chart

A-7-2 Rationale for Reorganization

A-9-2 Business Plan

A-10-2 p 40

B-1-1 Strategic Objective #1

B-1-1 Attachment 11 – CDM Program Descriptions

D-2-1 2007 Operating Costs and Capital Additions Budget

E-1-14 Undertaking Response TC Jan 8, 2007 Tr. p. 136

E-1-17 Undertaking Response TC Jan 9, 2007 Tr. p. 36

E-1-19 Undertaking Response TC Jan 9, 2007 Tr. p 58

TC-4 Table Labelled "Strategic Objective No. 1, Operating Costs, 2007 Budget by Cost Unit"

TC-5 Chart Entitled "OPA CDM 2007 Portfolio"

TC-7 CDM Slide Deck

Technical Conference Transcript dated January 8, 2007

Technical Conference Transcript dated January 9, 2007

Incomplete Settlement

There is an incomplete settlement of Issue 1, because there are unresolved aspects of this issue that intervenors intend to pursue at the hearing. Certain intervenors will take the position at the hearing that the OEB should require the following:

- (1) that the OPA shall in future applications provide to the OEB and all parties a more detailed breakout of CDM program goals, costs and designs including: goals, costs, designs, TRC inputs and projections and results (as available) for each of its proposed and existing programs. In 2007 the same information shall be provided to the OEB and to the public for each CDM program conducted by the OPA in 2007 at the time of internal approval of each program by the OPA. OPA shall also report by September 1st, 2007 on the status of the outstanding CDM programs identified by the Program Design Advisory Group but not initiated in 2007;
- (2) that the OPA will as part of its 2007 CDM efforts conduct a scan of all important lost opportunity markets and report back to the OEB and the parties by September 1, 2007 with any proposals it has for programs to address cost effective market opportunities including programs to address residential new construction;
- (3) that the OPA will provide the OEB, by February 28th, 2007, with its best estimate of the marginal cost of supplying electricity during a super peak demand day (i.e., top 1% of annual system demand) assuming a) the predicted marginal supply source and b) that the marginal source of supply is a new simple-cycle natural gas- fired power plant (if that is not the predicted marginal supply source). The OPA will break-out its cost estimates according to at least the following categories: generation capital costs, generation fuel costs and generation non-fuel variable costs; transmission capital costs; the cost of capital; and transmission, and distribution and transformer losses at the time of the top 1% of annual system demand; and
- (4) that the OPA will make best efforts as part of its 2007 CDM activity to negotiate contracts with third parties such as the major natural gas distribution companies for delivery of an intensive electricity to natural gas end-use fuel switching program (addressing for example: space heating, water heating, cooking and drying). The OPA will make best efforts to negotiate contracts which will provide the highest practically possible level of fuel switching in 2007, 2008 and 2009 that passes the Total Resource Cost Test. The OPA shall file progress reports to the OEB on this matter on April 15, 2007, July 16th, 2007 and October 15th, 2007 and shall file a description of the program design, costs and goals once available and no later then as part of its 2008 application.

All other aspects of Issue 1 have been resolved.

Participating Intervenors: All intervenors except APPrO, and OPG, participated in the negotiation of this issue. The PWU participated in the negotiations of paragraphs (1) and (3), and did not participate in the negotiations of paragraphs (2) and (4).

2. Strategic Objective #2 Power System Planning Operating Budget

2.1 2007 Operating Budget

- a) Is the budget reasonable and appropriate?

2.2 Development of IPSP for OEB approval

- a) Are the management and administrative systems the OPA has put in place to accommodate the 2007 System Planning program reasonable and appropriate?

Evidence: The evidence in relation to this issue includes the following:

A-9-2 Business Plan

B-2-1 Strategic Objective #2

D-2-1 2007 Operating Costs and Capital Additions Budget

E-1-6 Undertaking Response TC Jan 8, 2007 Tr. p. 84

E-1-8 Undertaking Response TC Jan 8, 2007 Tr. p. 91

E-1-15 Undertaking Response TC Jan 9, 2007 Tr. p. 26

E-1-16 Undertaking Response TC Jan 9, 2007 Tr. p. 34

TC-1 Response to CCC Question No. 18

Technical Conference Transcript dated January 8, 2007

Technical Conference Transcript dated January 9, 2007

Complete Settlement

There is agreement to settle Issue 2, on the basis of the following:

- (1) following the release of the OEB's decision on the first IPSP, the OPA will prepare a report on lessons learned from the IPSP process for the purposes of the development of the second IPSP. This report will be filed as part of the OPA's submission to the OEB for its 2009 revenue requirement case, or if that filing is not made within three months of the release of the OEB's decision on the first IPSP, the report will be provided to stakeholders within that three month period; and
- (2) in its IPSP filing, the OPA will indicate how the views of stakeholders have been taken into account in the development of the IPSP.

Participating Intervenors: All intervenors except APPrO, and OPG, participated in the negotiation and settlement of this issue.

Approval: All participating intervenors accept and agree with the proposed settlement of this issue, except Pollution Probe, which takes no position.

3. Strategic Objective #3 Supply Procurement and Contracting Operating Budget

3.1 2007 Operating Budget

- a) Is the budget reasonable and appropriate?

3.2 Contract Management

- a) Is the use of an interim in-house system to handle financial settlements and contract management reasonable?
- b) Has the OPA used appropriate methods and techniques in the design and operation of its contracting/procurement program?

Evidence: The evidence in relation to this issue includes the following:

B-3-1 Strategic Objective #3
D-2-1 2007 Operating Costs and Capital Additions Budget
E-1-2 Undertaking Response TC Jan 8, 2007 Tr. p. 45
E-1-4 Undertaking Response TC Jan 8, 2007 Tr. p. 75
E-1-5 Undertaking Response TC Jan 8, 2007 Tr. p. 75
E-1-13 Undertaking Response TC Jan 8, 2007 Tr. p. 113
E-1-18 Undertaking Response TC Jan 9, 2007 Tr. p. 39
TC-2 Response to CCC Question No. 19
Technical Conference Transcript dated January 8, 2007
Technical Conference Transcript dated January 9, 2007

Complete Settlement

There is agreement to settle Issue 3, on the basis of the following:

- (1) the OPA will prepare a report on the procurement of generation in Ontario through competitive and non-competitive means and provide it in its 2008 Revenue Requirement Submission ("2008 RRS"). The report will include a list (counter-party and capacity in MWs, where this is available) of the generation contracts entered into by the OPA in 2007 to the date of the report that did not arise from a competitive procurement process.

Participating Intervenors: All intervenors except OPG, participated in the negotiation and settlement of this issue.

Approval: All participating intervenors accept and agree with the proposed settlement of this issue, except Pollution Probe, which takes no position.

4. Strategic Objective #4 Sector Development Operating Budget

4.1 2007 Operating Budget

- a) Is the budget reasonable and appropriate?

4.2 Coordination of OPA's Activities with the IESO and the OEB

- a) Is there any overlap or duplication of activities? Are there opportunities for OPA efficiency improvement?
- b) How is the OPA respecting the distinction between its statutory role and that of the IESO and coordinating its activities in respect thereof?

Evidence: The evidence in relation to this issue includes the following:

B-4-1 Strategic Objective #4
D-2-1 2007 Operating Costs and Capital Additions Budget
D-3-1 Deferral Accounts
E-1-1 Undertaking Response TC Jan 8, 2007 Tr. p. 34
E-1-6 Undertaking Response TC Jan 8, 2007 Tr. p. 84
TC-3 Response to CCC Question No. 25
Technical Conference Transcript dated January 8, 2007
Technical Conference Transcript dated January 9, 2007

Incomplete Settlement

The OPA and certain intervenors agree to a settlement of Issue 4, subject to the following:

- (1) the OPA proposes to develop market mechanisms including an LSE pilot in 2007. Since it is possible for market mechanisms to lead to contracts for supply that could conflict with specific government goals and directives, the OPA's market mechanism development efforts will not be inconsistent with the goals set out in the Directives; and
- (2) inter alia, these market mechanisms will be designed or constrained to avoid anything that would compromise the ability of the province to achieve a phase out of reliance on coal-fired generation at the earliest practicable time.

All other aspects of Issue 4 have been resolved.

Participating Intervenors: All intervenors except OPG, participated in the negotiation of this issue.

Approval: All participating intervenors accept and agree with the settlement of Issue 4, except CCC, APPRO, Energy Probe, and VECC, which take no position on paragraph (2) of the settlement of Issue 4 and PWU, which does not agree with paragraph (2) of the settlement of this issue.

5. Strategic Objective #5 Building Organizational Capacity Operating Budget

5.1 2007 Operating Budget

- a) Is the budget reasonable and appropriate?
- b) Are the proposed capital expenditures for 2007 reasonable and appropriate?

5.2 Human Resources

- a) Is the design and structure of the OPA's compensation system reasonable and appropriate?

5.3 Finance

- a) Are the OPA's staff costs reasonable given the skills and experience required?
- b) Are the consulting fees incurred by the OPA reasonable and appropriate given the staff increases in the organization?
- c) Budget information vs. actual spending amounts in the financial information provided in the Application.

5.4 Deferral Accounts

- a) What is the appropriate treatment regarding the Retailer Contract Settlement Deferral Accounts?
- b) Clearing of Government Procurement Costs Deferral Account

Evidence: The evidence in relation to this issue includes the following:

B-5-1 Strategic Objective #5

C-2-1 Hay 2006 Compensation Review – February 15, 2006

D-2-1 2007 Operating Costs and Capital Additions Budget

D-3-1 Deferral Accounts

D-3-4 Forecast Variances - 2007 Forecast Variance Deferral Account

E-1-3 Undertaking Response TC Jan 8, 2007 Tr. p. 55

E-1-7 Undertaking Response TC Jan 8, 2007 Tr. p. 87

E-1-8 Undertaking Response TC Jan 8, 2007 Tr. p. 91

E-1-9 Undertaking Response TC Jan 8, 2007 Tr. p. 100

E-1-10 Undertaking Response TC Jan 8, 2007 Tr. p. 106

E-1-11 Undertaking Response TC Jan 8, 2007 Tr. p. 110

E-1-12 Undertaking Response TC Jan 8, 2007 Tr. p. 113

E-1-13 Undertaking Response TC Jan 8, 2007 Tr. p. 113

E-1-13 Att 1 Signing Authorities Policy Revised October 25, 2006

E-1-13 Att 2 Procurement Policy Revised October 25, 2006

E-1-14 Undertaking Response TC Jan 8, 2007 Tr. p. 136

E-1-19 Undertaking Response TC Jan 9, 2007 Tr. p. 58

TC-3 Response to CCC Question No. 25

TC-4 Table Labelled "Strategic Objective No. 1, Operating Costs, 2007 Budget by Cost Unit"
TC-6 Slide Deck on All Strategic Objectives, Excluding CDM
Technical Conference Transcript dated January 8, 2007
Technical Conference Transcript dated January 9, 2007

Complete Settlement

There is agreement to settle Issue 5, on the basis of the following:

- (1) the OPA will reduce the contingency included in its 2007 operating budget by \$0.8 million to \$3.2 million;
- (2) in its 2008 RRS, the OPA will report on its progress in fulfilling the action items that are identified in its 2007 Business Plan under each heading which reads "You will see that we have met this objective when";
- (3) in its 2008 RRS, the OPA will provide a report addressing how incentives for executives are linked to the achievement of corporate objectives;
- (4) in its 2008 RRS, the OPA will provide any incremental external consulting and legal costs incurred in 2007 for each new directive arising in 2007;
- (5) with respect to the OPA's practices in the procurement of professional and consulting services, the OPA will, subject to any confidentiality limitations, take the following actions:
 - (i) provide the most recent copy of management's (annual) report to the Audit Committee of the Board regarding all non-competitive procurements by the OPA;
 - (ii) file, as part of the 2008 RRS, management's most recent report to the Audit Committee of the Board regarding all non-competitive procurements by the OPA;
 - (iii) retain an independent consultant to review the OPA's Procurement Policy and related Signing Authorities and compare them with the procurement and authorization practices of other public entities (e.g., OEB, Ministry of Energy, etc.) and provide the results of this review and comparison in the 2008 RRS;
- (6) with respect to OPA's compensation practices, the OPA agrees to provide in its 2008 RRS the following:
 - (i) any advice received from Hay (as a result of the report filed in this revenue requirement submission and the OPA's ongoing work with Hay) regarding:
 - (a) the appropriate compensation element(s) to be used in benchmarking the OPA's staff compensation levels with comparables;
 - (b) the appropriate percentile to be used in benchmarking the OPA's staff compensation levels with comparables;
 - (ii) the OPA's position with respect to the Hay advice - if no advice has been received, the OPA will provide its position on the above issues; and
 - (iii) any action plan arising from the OPA's position referred to above; and
- (7) subject to confidentiality and contractual limitations, including limitations relating to information that is proprietary or personal, the OPA will provide the entire version of the Hay Group report (redacted as necessary) currently filed in a modified form at Exhibit C-2-1.

Participating Intervenors: All intervenors except APPrO, and OPG, participated in the negotiation and settlement of this issue.

Approval: All participating intervenors accept and agree with the proposed settlement of this issue, except Pollution Probe, and PWU, which take no position, and GEC, which takes no position except for paragraph (3) with which it agrees.

6. General

6.1 Proposed Usage Fee

- a) Is the design of the proposed usage fee appropriate?
- b) Mechanism for adjustment with respect to any difference between interim and final approved fee.

6.2 Stakeholder Consultation

- a) Are the OPA's plans for 2007 stakeholder consultation appropriate?

6.3 EB-2005-0489 Settlement Agreement

- a) Has the OPA complied with the provisions of the 2006 RRS Settlement Agreement?

Evidence: The evidence in relation to this issue includes the following:

A-3-2 Response to Commitments in EB-2005-0489 Settlement Proposal

C-1-1 OPA Stakeholder Engagement Model

C-1-2 IPSP Stakeholder Engagement Process

C-1-2 Attachment 1 - IPSP Stakeholder Engagement Process Diagram

D-3-1 Deferral Accounts

D-3-4 Forecast Variances - 2007 Forecast Variance Deferral Account

E-1-9 Undertaking Response TC Jan 8, 2007 Tr. p. 100

Technical Conference Transcript dated January 8, 2007

Technical Conference Transcript dated January 9, 2007

Complete Settlement

There is agreement to settle Issue 6, on the basis of the following:

- (1) the current estimate of the amount by which the OPA's 2006 expenses will exceed its 2006 revenues is \$1.6 million. One-half of this amount, or \$0.8 million, will be added to the OPA's 2007 revenue requirement. Given the reduction of \$0.8 million in the OPA's contingency for 2007, this will leave the OPA's revenue requirement for 2007 unchanged at \$57.0 million. The 2007 Forecast Variance Deferral Account ("2007 FVDA"), as proposed by the OPA, will be established and the remaining \$0.8 million of the estimated shortfall of \$1.6 million carried over from 2006 will be recorded in the 2007 FVDA, for disposition in the context of the OPA's 2008 RRS. As well, any difference between the estimated shortfall of \$1.6 million and the actual

amount of the OPA's 2006 shortfall will be recorded in the 2007 FVDA for disposition in the 2008 RRS; and

- (2) the OPA will, in its approach to stakeholder funding, recognize the level of effort that is required in order for stakeholders to provide meaningful input and, in particular, the OPA will, in its approach to stakeholder funding, balance available budget and the objective of reflecting appropriate preparation time on the part of stakeholders and the length and complexity of the documents that stakeholders must review in order to provide input to the OPA.

Participating Intervenors: All intervenors except APPrO, and OPG, participated in the negotiation and settlement of this issue.

Approval: All participating intervenors accept and agree with the proposed settlement of this issue, except GEC, Pollution Probe, and PWU, which take no position.

SUPPLEMENTAL SETTLEMENT PROPOSAL

February 14, 2007

This Supplemental Settlement Proposal is filed with the Ontario Energy Board (“OEB”) in connection with the 2007 Expenditure and Revenue Requirements Submission (“2007 RRS”) of the Ontario Power Authority, filed November 1, 2006 under sections 25.20 and 25.21 of the *Electricity Act, 1998*. A Settlement Conference was held on January 15 and 16, 2007 according to the *Ontario Energy Board Rules of Practice and Procedure* (the “Rules”) and the Board's *Settlement Conference Guidelines* (“Settlement Guidelines”).

On January 22, 2007 the Ontario Power Authority (the “OPA”) filed a Settlement Proposal arising from the above-mentioned Settlement Conference. This Supplemental Settlement Proposal arises from subsequent negotiations among the OPA and the following intervenors listed alphabetically (collectively, the “Parties”):

Association of Power Producers of Ontario (APPrO)
Consumers Council of Canada (CCC)
Energy Probe Research Foundation (Energy Probe)
Green Energy Coalition (GEC)
Ontario Power Generation (OPG)
Pollution Probe
Power Workers' Union (PWU)
Vulnerable Energy Consumers Coalition (VECC)

Any intervenors who are identified as not having participated in the negotiation of that issue also take no position on any settlement or other wording pertaining to the issue. In accordance with the Rules and the Settlement Guidelines, Board Staff is not a party to the Supplemental Settlement Proposal.

The Supplemental Settlement Proposal describes the agreements subsequently reached on Issue 1, Conservation and Demand Management Operating Budget, previously categorized as Incomplete Settlement. The Supplemental Settlement Proposal identifies the intervenors who agree with each settlement, or who take no position on the issue. Therefore the intervenors who are in agreement with the settled issues believe that the evidence provides sufficient information to support their views to support the Supplemental Settlement Proposal and will assist the Board in its decision making on those issues.

Evidence: The evidence in relation to Issue 1 includes the following:

A-6-1 2006 CECO Annual Report
A-7-1 Organization Chart
A-7-2 Rationale for Reorganization
A-9-2 Business Plan
A-10-2 p 40
B-1-1 Strategic Objective #1
B-1-1 Attachment 11 – CDM Program Descriptions
D-2-1 2007 Operating Costs and Capital Additions Budget
E-1-14 Undertaking Response TC Jan 8, 2007 Tr. p. 136
E-1-17 Undertaking Response TC Jan 9, 2007 Tr. p. 36
E-1-19 Undertaking Response TC Jan 9, 2007 Tr. p 58
TC-4 Table Labelled “Strategic Objective No. 1, Operating Costs, 2007 Budget by Cost Unit”

TC-5 Chart Entitled "OPA CDM 2007 Portfolio"
TC-7 CDM Slide Deck
Technical Conference Transcript dated January 8, 2007
Technical Conference Transcript dated January 9, 2007

Issue 1. Conservation and Demand Management 2007 Operating Budget

Complete Settlement

All parties accept and agree to the operating budget and revenue requirement implications for 2007 of Strategic Objective #1, as proposed by the OPA, on the basis of the following:

- 1.1 The OPA will consult with stakeholders, in a manner designed by the OPA, to advise them of, and receive their comments on, the OPA's 2008 program portfolio and the design of its 2008 programs (the "consultation"). The OPA will consult with a broad range of stakeholders with respect to its 2008 program portfolio. With respect to the design of programs in particular market segments, the OPA will focus its consultation on an appropriate range of stakeholders, based on a stakeholder's particular expertise or interest in that market segment. The OPA will provide funding for participation in the consultation to those stakeholders who are eligible for cost awards under the OEB's cost awards guidelines. The OPA agrees that the consultation will commence no later than September 1, 2007.
- 1.2 Nothing in paragraph 1.1 restricts the rights of intervenors to argue in the 2008 RRS for more detailed information to be filed by the OPA than has been filed in the 2007 RRS.
- 1.3 In the course of the consultation the OPA will provide, to the extent that any are available, the screening assumptions and expected program results, including expected savings and cost-effectiveness, for existing and contemplated programs.
- 1.4 The OPA will as part of its 2007 CDM efforts conduct a scan of all important lost opportunity markets, including the low income market. The OPA will report in the consultation by September 1, 2007 the results and any proposals arising from this scan and the status of all potential CDM programs identified by the OPA's Program Design Advisory Group but not implemented in 2007.
- 1.5 The OPA will make public its final, evaluated program results, including success in meeting original program goals regarding savings achieved and cost effectiveness, as they become available. The OPA will make public at least once every 12 months, preliminary program results on each program it funds.
- 1.6 The OPA will file with the OEB, by no later than March 16, 2007, its best estimate of the marginal cost of supplying electricity during a super peak demand hour (i.e., top 1% of annual system demand) assuming a) the predicted marginal supply source and b) that the marginal source of supply is a new simple-cycle natural gas-fired plant (if that is not the predicted marginal supply source). The OPA will break-out its cost estimates according to at least the following categories: generation capital costs, generation fuel costs and generation non-fuel fixed and variable operating costs; transmission capital costs; the cost of capital;

and transmission, and distribution and transformer losses at the time of the top 1% of annual system demand.

The OPA will perform its analysis on the following basis:

The marginal cost of supplying electricity over the super peak demand hour, assumed to occur during 2007 summer, will be expressed in \$/MWh to the wholesale delivery point.

The generation portion of the cost will be calculated as follows:

- Generic estimates for the capital and operating and maintenance costs of a simple cycle gas-fired plant will be used.
- The financing charges – The OPA will calculate two answers: one using a capital cost recovery factor based on discount factor of 6% (nominal) and one based on a discount factor of 11% (nominal), both assuming the fixed costs are recovered over 88 hrs (1% of 8760) per year and excluding corporate taxes. The OPA notes that it does not agree that 11% is the appropriate amount to use as a discount factor in this particular case.
- Generic operating and maintenance costs will be used. No efficiency adjustment will be made for summer operation of the gas turbine.
- Natural gas cost of \$6/MMBtu.
- The OEB/Navigant estimates for transmission marginal capital costs will be used and estimated at \$5.35/kW-yr
- The OPA will estimate marginal transmission and associated transformer losses during the summer peak period (88 hours) based on 2006 data and information.
- The OPA will estimate distribution line and transformer losses based on the best available information.

The OPA notes that it does not agree that demand response should be priced based on the marginal cost of supplying electricity during a super peak demand hour.

- 1.7 The OPA will make reasonable efforts as part of its 2007 CDM activities to negotiate contracts with third parties such as the major gas distribution utilities with the goal of implementing a natural gas end-use fuel switching program that pursues major TRC-positive fuel switching opportunities over what will likely be a multi-year period. The OPA will, in the consultation, provide stakeholders with information on the progress of these negotiations.

Participating Intervenors: All intervenors except APPrO, OPG and PWU participated in the negotiation and settlement of this issue.

Approval: All participating intervenors accept and agree with the proposed settlement of this issue, except APPrO, OPG and PWU which take no position on this issue. VECC takes no position on paragraph 1.6, and CCC takes no position on paragraphs 1.6 and 1.7.

APPENDIX B TO ORDER

Board File No. EB-2006-0233

Dated March 5, 2007

INTERVENTION & OBSERVER LIST

**ONTARIO POWER AUTHORITY
2007 EXPENDITURE & REVENUE REQUIREMENTS
EB-2006-0233**

APPLICANT & LIST OF INTERVENORS & OBSERVERS

March 5, 2007

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