



EB-2006-0205

IN THE MATTER 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 Lennox Generating
Station facilities between Ontario Power Generation
Inc. and the Independent Electricity System Operator;

PROCEDURAL ORDER NO. 1

Ontario Power Generation Inc. ("OPG") filed an application on August 23, 2006 with the Ontario Energy Board seeking approval of the second reliability must-run agreement (the "RMR Contract") entered into with the Independent Electricity System Operator ("IESO") in relation to OPG's Lennox generating station ("Lennox"). The Application was made under section 5 of OPG's generation licence, which requires that any reliability must-run contract be approved by the Board prior to its implementation. The Board has assigned File Number EB-2006-0205 to the Application.

OPG requested that the Application be disposed of without a hearing on the grounds that the Board has recently reviewed and approved the existing RMR Contract and there has been essentially no change in the agreement. Notice of Application was published on October 9 and 10, 2006.

The Board notes that the structure of the proposed RMR Contract is similar to the structure of the reliability-must-run contract for the 12 months ended September 30, 2006 that was filed by OPG for the Board's approval under Board File No. EB-2005-0490. Accordingly, this hearing will be restricted to consideration of the issue of the reasonableness of the estimated operating costs and gross revenues in the proposed RMR Contract as compared the amounts included in the reliability-must-run contract filed under Board File No. EB-2005-0490.

The Electricity Market Investment Group ("EMIG") filed a submission in response to the Notice of Application. EMIG's submission deals with the process by which the IESO determines that continued operational availability of a generating facility is required on a "must-run" basis. EMIG submitted that:

The Board should clearly articulate at this time that future RMR approval applications will not be considered absent publication of a needs and alternatives analysis supporting the application, and evidence of public consultation sufficient to demonstrate the prudence of the option before the Board relative to available alternatives.

The issues raised by EMIG relate to the IESO process and possible future RMR contracts and are, therefore, not within the scope of issues that will be considered by the Board for this proceeding.

The Board has determined to proceed by way of a written hearing and by this Procedural Order establishes an expedited process for such written hearing.

As part of the Board's effort to expedite the process for reviewing OPG's application, the Board is issuing this Procedural Order simultaneously with its Letter of Direction to OPG, which requires OPG to serve certain parties with a Notice of Hearing. That Notice of Hearing will require any party who wishes to participate in this proceeding to file the required information on or before November 22, 2006. On or before November 24, 2006, the Board will compile a

list of all parties who have registered in accordance with the requirements of the accompanying Notice of Written Hearing and will make this List of Interested Parties available to all interested parties.

Once all interested parties to this proceeding are identified, Board staff will ascertain from these interested parties whether all of the steps identified in this Procedural Order No. 1 are required and may further streamline the written hearing process by issuing a subsequent procedural order.

THE BOARD THEREFORE ORDERS THAT:

1. OPG shall file responses to the Board staff interrogatories to OPG provided in Appendix A to this Procedural Order and shall deliver copies of such responses to all other registered parties on the Board's List of Interested Parties **on or before November 27, 2006**.
2. Any interested party who has registered in accordance with the requirements of the accompanying Notice of Written Hearing and who wishes to file pre-filed evidence, shall file such evidence with the Board and deliver copies to OPG and all other interested parties **on or before November 29, 2006**.
3. Any interested party who has registered in accordance with the requirements of the accompanying Notice of Written Hearing and who wishes information and material that is in addition to the materials filed as part of the Application, and that is relevant to this proceeding as guided by the issue provided in this Procedural Order, shall request such information and material by written interrogatories directed to the party from whom the information and material is sought. All written interrogatories shall be filed with the Board and delivered to OPG and all other interested parties **on or before December 6, 2006**. Interrogatories directed to OPG should include a reference to the specific portion of the Application materials on which the interrogatory is based. Interested parties are expected to review Board staff interrogatories provided in Appendix A to ensure they do not duplicate questions.

4. Responses by all parties to written interrogatories shall be filed with the Board and delivered to OPG and all other interested parties **on or before December 13, 2006**.
5. OPG shall file final argument with the Board and deliver copies to all other interested parties **on or before December 15, 2006**.
6. All interested parties other than OPG may file final argument with the Board and deliver copies to OPG and all other interested parties **on or before December 20, 2006**.
7. OPG shall file a reply argument with the Board and deliver copies to all other interested parties **on or before December 22, 2006**.
8. **All filings to the Board noted in this Order must be in the form of 6 (six) hard copies and must be received by the Board by 4:45 p.m. on the stated dates. The Board also requires all filings to be in electronic form. Therefore, all parties must also email electronic copies of their filings to the Board Secretary at Boardsec@oeb.gov.on.ca, or make them available on CD or diskette.** The Board requests that all parties make every effort to provide their filings in MS Word or MS Excel format for word-processed and spreadsheet documents respectively, or at a minimum in searchable PDF format.
9. Service of documents to parties other than the Board may be effected by e-mail.

ISSUED at Toronto, November 13, 2006.

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary

APPENDIX A

TO PROCEDURAL ORDER NO. 1

EB-2006-0205

**Ontario Power Generation Inc.
Lennox Generating Stations Reliability Must-Run Agreement
(EB-2006-0205)
Board staff Interrogatories**

1. Re: Schedule D, Table 1 of the Revised RMR Agreement

Please provide a schedule using the format of Table 1 of Schedule D, showing the following in the columns:

Cost Category (1)	RMR agreement Oct. 1/05 to Sept. 30/06		Difference between forecast and actual (Oct. 1/05 to Sept. 30/06)		RMR agreement Oct. 1/06 to Sept. 30/07	Difference between forecasts for second and first RMR agreements	
	Forecasted amount per first RMR agreement (2)	Actual (3)	\$ (4)= (2)-(3)	% (5) = (4)/(2)	Forecasted amount per second RMR agreement (6)	\$ (7)= (6)-(2)	% (8)= (7)/(2)
<i>Fixed costs</i>							
Fixed and Variable Fuel Costs							
OM&A Costs							
Labour							
Energy Markets (fuel purchasing / trading)							
Materials							
...							
MONTHLY PAYMENT							

2. Re: Section 5, Performance of the 2005-06 Lennox RMR Agreement

In its application, OPG indicates that, for the period October 1, 2005 to June 30, 2006, actual agreement costs were \$80.73M versus an estimate of \$63.26M while total revenues were \$36.56M versus an

estimate of \$18.60M. OPG identifies certain factors for the variances between actuals and estimates. However, it is not clear if some of these variances are due to operation of the Lennox GS as a must-run facility more frequently than was forecasted:

- a. Please document OPG's aggregate operation of Lennox Generating Station for the period October 1, 2005 to September 30, 2006 in comparison to the estimated operation reflected in the first RMR agreement. Please document the operation in terms of:
 - i. Hours of operation;
 - ii. Number of times when OPG was requested by the IESO to run the Lennox Generating Station as a "must-run" facility; and
 - iii. MWh of electricity generated.
- b. Please explain if, and if so how, actual performance during the term of the first RMR agreement has been taken into account in the negotiated second RMR agreement between OPG and the IESO.

3. Re: Schedule D, Table 1 of the RMR Agreement

In the second RMR agreement, Fixed and Variable Fuel Costs are estimated to be \$43,183,823. Corresponding Fixed and Variable Fuel Cost estimates in the initial RMR agreement in effect from October 1, 2005 to September 30, 2006 were \$29,625,000. The change in Fuel Costs is \$13,558,823, which is an increase of 45.77% over the initial estimate.

- a. Please provide actual fuel costs incurred for the term of the first RMR agreement, from October 1, 2005 to September 30, 2006.
- b. For the 45.77% increase, please break down the increase between:
 - i) increases in the prices of oil and natural gas; ii) changes in the expected quantity of fuel due to changed forecasts for operation of the Lennox Generating Station under must-run conditions; and iii) other. Please explain the break-down.

4. Re: Schedule D, Table 1 of the RMR Agreement

In the second RMR agreement, labour costs are estimated to be \$26,450,067. This contrasts with estimated labour costs of \$24,106,000 in the initial approved RMR agreement in effect from October 1, 2005 to September 30, 2006. The change in labour costs is \$2,344,067, which is 9.72% of the labour costs in the original amount. Please explain the increase in labour costs.

5. Re: Schedule D, Table 1 of the RMR Agreement

In the second RMR agreement, costs labeled as "Other" are estimated at \$4,366,952. The corresponding estimated "Other" cost estimates in the initial RMR agreement in effect from October 1, 2005 to September 30, 2006 was \$3,497,000. The change in "Other" costs is \$869,952,

which is a 24.88% increase in "Other" costs from the original agreement.

- a. Please indicate what costs are classified in "Other".
- b. Please explain the increase in costs in this category.

6. Re: Schedule D, Table 1 of the RMR Agreement

In the second RMR agreement, project costs are estimated at \$9,026,000. The corresponding Project costs in the initial RMR agreement in effect from October 1, 2005 to September 30, 2006 were \$14,555,000. The change in project costs is a reduction of \$5,529,000 or -38%. Please explain the reduction in Project costs.

7. Re: Schedule D, Table 1 of the RMR Agreement

In the second RMR agreement, Financing Costs on Working Capital are estimated at \$4,043,904. The corresponding Financing Costs on Working Capital estimate in the initial RMR agreement in effect from October 1, 2005 to September 30, 2006 was \$2,976,000. The change in Working Capital Financing Costs is estimated as \$1,067,904, or 35.88% of the original amount. Please explain the increase in the estimated Financing Costs on Working Capital.

8. Re: Schedule B of the RMR Agreement

OPG notes in its application that there is a performance reward and penalty mechanism to the RMR agreement. Schedule B of the RMR agreement details how the financial reward and penalty mechanism works, and defines the measures used for assessing performance metrics used in the mechanism.

- a. Please provide OPG's performance under the terms of the first RMR agreement in effect from October 1, 2005 to September 30, 2006. Please identify if any penalty was incurred or reward paid out as a result.
- b. Was performance to date under the term of the initial RMR agreement taken into account when negotiating the conditions of the second RMR agreement?
 - i. If yes, please identify how the performance criteria were changed.
 - ii. If no, please explain why not.