

October 3, 2016

VIA Email, Courier and RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Ontario Energy Board File No.: EB-2016-0152
Ontario Power Generation – Application for an Order Approving Payment Amounts for
Prescribed Generating Facilities

Pursuant to the Ontario Energy Board's August 12, 2016 Procedural Order No. 2, Schedule C, please find enclosed the Interrogatories of the Independent Electricity System Operator in the above-noted proceeding.

Yours truly,



Nancy Marconi
Senior Manager, Regulatory Affairs

cc via email:

Chris Fralick, OPG
Barbara Rueber, OPG
Carlton Mathias, OPG
Charles Keizer, Torys
Crawford Smith, Torys
EB-2016-0152 Intervenors

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**Ontario Power Generation Inc.
2017-2021 Payment Amounts Application**

Interrogatories of the Independent Electricity System Operator (“IESO”)

Ancillary Services

Preamble:

Ancillary services means services necessary to maintain the reliability of the IESO-controlled grid, and include regulation and operating reserve. Regulation means the service required to control power system frequency and maintain the balance between load and generation; operating reserve (“OR”) means generation capacity or load reduction capacity which can be called upon on short notice by the IESO to replace scheduled energy supply which is unavailable as a result of an unexpected outage or to augment scheduled energy as a result of unexpected demand or other contingencies.

OPG has historically been a significant provider of OR and regulation in Ontario. The IESO indicated in its latest 18 Month Outlook (issued September 22, 2016

at http://www.ieso.ca/Documents/marketReports/18MonthOutlook_2016sep.pdf) that there is an increased need for regulation service to help manage the variations in generation and demand under a continuously evolving generation mix and demand patterns. There has also been a significant decrease in OR offered by hydroelectric resources, as noted by the Market Surveillance Panel in its May 2016 report (page 75 Section 3.2.3

(<http://www.ontarioenergyboard.ca/oeb/Industry/About%20the%20OEB/Electricity%20Market%20Surveillance/Market%20Surveillance%20Panel%20Reports>)

Question 1

- a) Please explain the reasons for OPG's declining production for each of OR and regulation.

- b) Please explain if both the amount of regulation and OR expected to be offered into the market and revenues from regulation and OR are forecast to decline and by how much.
- c) The current OEB-approved payment amounts structure for ancillary services appears to not provide any incentive for OPG to offer more of these services in the future, either from its current operating capabilities or from new investments for that purpose. How could the OEB-approved payment amounts incentive structure be changed in order to result in OPG offering more regulation and OR into the market?

SMO

Preamble:

Segregated Mode of Operation ("SMO") is when an Ontario generator is physically disconnected from the IESO-controlled grid and then directly connected via a radial interconnection transmission line to the neighbouring control area.

The IESO is looking to better understand how OPG operates its regulated facilities for the purpose of earning Other Revenues. In particular, the IESO is interested in understanding the allocation of costs and calculation of net revenues from SMO as well as whether payments received from Quebec for the energy delivered during SMO (including inadvertent energy payment streams) contribute to OPG's "Other Revenues".

Question 1

Please explain which energy delivery and inadvertent energy payment streams contribute to OPG's "Other Revenues".

Question 2

Are revenues received from Quebec when OPG is operating in SMO included in "Other Revenues"?

Question 3

Does the “Production Forecast” in OPG’s application include production from SMO? Is “inadvertent” energy included in the production forecast as SMO production? If not how is it reported? Is it subject to revenue sharing?

Question 4

Please explain how differences in actual “Other Revenues” from forecast are treated / accounted for?

Capacity Exports

Ref: Exhibit H1, Tab 1, Schedule 1, Page 9

Preamble:

An IESO Stakeholder Engagement is currently addressing the export of Ontario generation capacity to other jurisdictions.

Question 1

Does OPG anticipate that over the term of its IRM it may receive “Other Revenues” from sources in addition to those addressed in its current “Other Revenues” forecast, e.g., capacity exports? If yes, how does OPG intend to account for these potential additional revenues pending its next payment amounts application?

Cost Allocation

Preamble:

OPG allocates specific costs that are incurred at Corporate or Plant Group levels to the generation facilities that operate within each of the various Plant Groups. The manner of the allocation of these costs can either be determined as a direct allocation or by an allocated portion based on an operating parameter.

Question 1

Will the previously approved cost allocation methodology continue under an IRM structure? If yes, could OPG explain that methodology (for example, providing a breakdown by category or function of the various Corporate, Support Services, Plant Group or other Resource Service costs that are currently allocated to the various Plant Groups and the generation assets; the parameters that are utilized to allocate each of the specific costs that are allocated to the generation facilities; how it allocates costs across its facilities, specifically regulated generation facilities vs. non regulated generation facilities; and the allocation methodology used by each of the different Plant Groups to allocate its Corporate and Plant Group Level costs to each of the assets contained in each of the Plant Group)?

Question 2

Are the parameters for the allocation methodologies used by each of the Plant Groups completed the same (e.g., number of generating units, amount of production, capacity of the generation facility, etc.) or are some allocated using a specific parameter (e.g., number of generating units) and others are allocated through the use of another parameter (e.g., amount of production)?

Question 3

If the allocation methodologies for allocating costs to the generation facilities is not completed using the same parameters, how does OPG ensure costs are allocated consistently to the various generation facilities?