

IESO INTERROGATORIES

IESO-1

Ref: Exhibit A1-Tab 2- Schedule 1 Page 1 & Exhibit A2-1-1 Attachment 2

Preamble: Ontario Power Generation (OPG) is requesting an order or orders approving changes to the calculation of amounts for the Hydroelectric Surplus Baseload Generation Variance Account ("SBGVA") and the Hydroelectric Incentive Mechanism ("HIM"), and approving the treatment of real time make whole payments, resulting from the implementation of the Independent Electricity System Operator's ("IESO") Market Renewal Program ("MRP")

OPG states that due to MRP the HIM needs to be revised to reflect new market features including Locational Marginal Prices and settlement of the new day ahead and real-time markets. OPG has proposed a revised HIM to incorporate:

- separate incentives for the day-ahead and real-time timeframe;
- settlement on LMP;
- daily production averaging instead of the current monthly production averaging.

Question 1:

- a) How will OPG's proposed Day Ahead Market (DAM) HIM incent OPG's efficient participation in the DAM and result in the optimal scheduling of its regulated hydroelectric resources?
- b) How will OPG's proposed Real-Time (RT) HIM incent its regulated hydroelectric resources to respond to changing RT market conditions?
- c) What other possible HIM formulae (DAM & RT) did OPG explore and how did it conclude that this proposal is the best choice?

IESO-2

Ref: Exhibit M1, Tab 1, Schedule 1, page 9 of 22 & MRP Energy Stream Business Case page 42

Preamble: in M1-1-1 page 9 OPG states:

"CMSCs are the current market mechanism to recover revenue for forgone production due to local curtailment. In EB-2007-0905, the OEB accepted OPG's proposal to retain CMSC payments as they are designed to compensate for "losses which OPG incurs in constrained on and constrained off situations [which] are mostly related to opportunity costs – the reduced production or less efficient production which results in lost revenues." Without a mechanism to address the elimination of CMSCs under MRP, OPG would necessarily be under compensated for such foregone production under the existing Regulated Framework. Accordingly, OPG is seeking an amendment to the SBGVA to address the impact of spill resulting from local curtailment, as described in the following sub-section."

The OEB's Market Surveillance Panel (MSP) published a report in 2016 titled: "Congestion Payments in Ontario's Wholesale Electricity Market: An Argument for Market Reform," which discussed problems with the current two-schedule market structure in Ontario, including its concerns with constrained off payments. The IESO has taken many of the MSP concerns into account in the design of MRP, including introducing a single schedule market with locational pricing that makes constraint payments unnecessary.

Question 2:

- a) Why is it appropriate for OPG to continue to be compensated for constrained off generation in the new market?
- b) Please provide estimates for the changes in spill quantities and SBGVA additions due to the proposed changes.

IESO-3

Ref: Exhibit M1, Tab 1, Schedule 1, page 18 of 22

Preamble: Exhibit M1-1-1 page 18 states:

"OPG's assessment of consumer benefits from the HIM concludes that economic time-shifting of its regulated hydroelectric generation reduces modelled consumer costs before OPG incentive payments by an average of \$50M per year from 2023 to 2026. This modelled time shifting of production results in a modelled net incentive payment to OPG of \$21M per year. The average annual net customer benefit over the modelled period is therefore \$29M. The analysis accounts for the market effects of time shifting: the displacement of more expensive generation (i.e., on-peak gas and imports) by hydroelectric production; increases in production and consequent GRC payments for additional on-peak generation at the regulated hydroelectric facilities; reduced payments for SBG-related forgone generation (as determined under OPG's proposal); and changes in exporter payments made to the IESO for off-peak exports that result in changes in customer costs."

Question 3:

- a) Does the customer benefit forecast include changes in SBGVA additions due to the proposed changes in the SBG spill methodology?