

## Appendix A

### Ontario Power Generation Reliability Must-Run Contract for Lennox Generating Station

#### Response of the Independent Electricity System Operator to additional clarifications and provisions requested in Procedural Order No. 2

##### Article 3.3 Participation in Markets

1. **Please provide your interpretation of what is meant by “*acting in a commercially reasonable manner with respect to any given activity includes, other than in exceptional circumstances, that the Physical Service Provider will offer a unit economically over a sustained period of time based on its cost*”.**

##### Response:

Acting in a commercially reasonable manner with respect to the provision of energy and ancillary services means that over a sustained period of time, OPG will offer each Lennox unit at no less than its variable costs taking into account factors such minimum run-times, minimum output levels, regulatory requirements, and IESO operational directions.<sup>1</sup> This restriction does not apply under certain exceptional circumstances, examples of which are as described in part three below. OPG will continue to operate and offer Lennox into the IESO-administered market in accordance with good utility practice and pursuant to the spirit of the Agreement.

This clause was included in the Agreement to maintain OPG’s ability to freely determine offers for the Lennox units while at the same time protecting against the potential for this Agreement to induce OPG to alter its offer behaviour in the market.

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<sup>1</sup> In this context:

- “a sustained period of time” means over a period of no more than several days and typically a much shorter period.
- “minimum run time” means the time for which a unit, having reached its minimum loading point, must run in accordance with the technical requirements of the facility.
- “minimum output levels” means the minimum output of energy that can be produced by a unit under stable conditions without ignition support.
- “regulatory requirements” include environmental monitoring requirements.

2. **Specifically, does the phrase “*based on its costs*” refer to OPG’s costs prior to or after receipt of any reimbursement of such costs by the IESO?**

**Response:**

The phrase “based on its costs” refers to OPG’s variable costs prior to the reimbursement of any costs by the IESO.

3. **Under what “*exceptional circumstances*” is OPG, as the Physical Service Provider, not required to act “in a commercially reasonable manner”?**

**Response:**

The IESO expects that OPG will always act in a commercially reasonable manner, however, it is recognized that under certain circumstances OPG may, over a limited period of time, not be able to offer the units in a manner that would enable it to recover its variable costs. Such circumstances may include the following:

- Testing requirements (e.g., emission monitoring, return-to-service testing, testing required by ancillary service contracts, etc), may require the unit to operate under defined conditions. To achieve these conditions and enable successful completion of the test, the unit may be offered at less than variable costs.
- The frequency of start-up and shutdown of a unit increases the potential for equipment damage and outages. In some circumstances, it may be more prudent for OPG to operate the unit so that it runs over a longer period of time during the daily operating cycle to limit the potential for equipment damage and the consequential reliability concerns and increased equipment maintenance costs.