

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998, S.O. 1998;*

AND IN THE MATTER OF an application filed by Ontario Power Generation seeking approval of the reliability must-run contract entered into with the Independent Electricity System Operator in relation to Ontario Power Generation's Lennox Generating Station.

**SUBMISSIONS
OF THE INDEPENDENT ELECTRICITY SYSTEM OPERATOR**

1. The Independent Electricity System Operator (the "IESO") appreciates the opportunity to make further submissions in respect of the application filed by Ontario Power Generation (OPG) seeking Ontario Energy Board (the "Board") approval of the Lennox reliability must-run contract. The IESO repeat and relies upon the IESO's answers to interrogatories that were filed with the Board on January 13, 2006. In these further submissions, the IESO wishes to address the following points:

- i. IESO endorses and requests Board approval of the Lennox reliability must-run contract;
 - ii. IESO supplementary comments on the issues set out earlier in Appendix B of Procedural Order No. 1; and
 - iii. IESO response to the additional clarifications and provisions requested in Procedural Order No. 2.
- I. IESO endorses and requests Board approval of the Lennox reliability must-run contract.**
2. The IESO endorses the Lennox reliability must-run contract and requests Board approval of the Agreement to enable the parties to proceed with its timely implementation.

3. The IESO is established under the *Electricity Act, 1998* (the “Act”) to, *inter alia*, administer the Ontario wholesale power markets and to direct the operations and maintain the reliability of the IESO-controlled grid. Both the Act and the IESO’s license, as issued by the Board, specifically mandate the IESO to maintain the reliability of the IESO-controlled grid.

4. The IESO’s responsibility for maintaining reliability is more precisely set out in the Market Rules which, among other things, obligates the IESO to identify all reliability must-run resources in respect of which it wishes to conclude reliability must-run contracts and enter into reliability must-run contracts with the registered market participant or prospective registered market participant for such reliability must-run resources. The Market Rules also directs that, where the IESO identifies such a reliability must-run resource, the registered market participant or prospective registered market participant for such reliability must-run resource shall, subject to section 9.6.4 of Chapter 7, contract with the IESO to supply physical services, other than contracted ancillary services, to the IESO-controlled grid for reliability purposes in accordance with sections 9.6 and 9.7 of Chapter 7.

5. As detailed in OPG’s application to the Board, on July 15, 2005 OPG formally gave notice of request to de-register the Lennox facilities on account of OPG’s inability to earn sufficient revenues to cover the station’s fixed operating costs. By letter dated August 4, 2005 the IESO advised OPG that it had conducted an assessment to ascertain what the reliability impacts are without Lennox and had concluded that removing “any of the four generation facilities at the Lennox generating station will or is likely to have an unacceptable impact on the reliability of the IESO-controlled grid.” The details of this assessment are set out in the IESO’s answer to Board staff interrogatory No. 1.

6. Given that there are no other alternatives currently under consideration or which could be brought to bear in a timely manner to continue maintaining the reliability of the IESO-controlled grid, should OPG proceed to de-register the Lennox facilities, further reinforces the IESO’s conclusion that Lennox is required to avoid the potential for sustained adverse impacts on the IESO-controlled grid.

Accordingly, the IESO denied OPG's request to de-register the Lennox units and the parties, in compliance with the Market Rules, negotiated a reliability must-run contract. The Agreement is structured to allow OPG to recover the fixed and variable costs associated with keeping Lennox connected to the IESO-controlled grid and available to produce electricity from its generating units.

II. IESO's supplementary comments on the issues set out earlier in Appendix B of Procedural Order No. 1.

7. In response to issue No. 1, the IESO is satisfied that the Agreement complies with the applicable provisions of the Market Rules.

8. In response to issue No. 2, the IESO submits that the financial provisions of the Agreement are reasonable and compare very favourably with various forms of RMR contracts and other mechanisms that are deployed in other jurisdictions in Canada and the U.S. for ensuring resource adequacy. The Agreement is a cost based contract which requires OPG to operate and make the facility available consistent with good utility practice and pursuant to the spirit of the Agreement. Furthermore OPG is specifically required to participate in the IESO-administered markets, including making offers in the energy and operating reserve market, in a commercially reasonable manner. As elaborated below, the Agreement was carefully drafted to avoid undermining normal commercial practices while still permitting OPG the flexibility to address "exceptional circumstances" that may arise. Finally, the Agreement contains performance standards which reward or penalize OPG if performance targets are met or missed.

9. The obligation to operate and make the facility available consistent with good utility practice, and to participate in a commercially reasonable manner are buttressed by meticulous financial reporting — including notification of significant events such as new projects or significant increases in costs of projects, Article 3.8.5 - and audit provisions, Article 4.4. As a cost based contract the Agreement provides for regular monthly payments which are subject to ongoing true ups against actual approved costs. To the extent that OPG claims true up payments it must substantiate its claim with detailed statements and rationale for the request,

Schedule A. The IESO has the right to conduct both financial and operational audits “at any time” during the term of the Agreement or within four months of its termination.

10. It is also worthwhile noting that the IESO has the right to terminate the Agreement at any time; the IESO is not locked into a long term agreement should there be a change in market condition and the consequential need for the Lennox reliability must-run contract, Article 7.3.

11. With respect to issue No. 3, as noted in the prior response to interrogatory No. 8, the Agreement was designed to encourage OPG to continue operating and maintaining the Lennox facility consistent with good utility practice and to participate in IESO markets in a commercially reasonable manner. The IESO submits that the incentives built into the Agreement will encourage OPG to maximize the operating efficiency of the facility to the benefit of electricity consumers. Moreover, the Agreement, as noted above, contains terms and conditions which protect against the potential for the Agreement to induce OPG to alter its offer behaviour in the market vs. OPG’s offer behaviour prior to execution of the Agreement.

III. IESO response to the additional clarifications and provisions requested in Procedural Order No. 2.

12. This IESO’s submissions on the additional clarifications and provisions requested in Procedural Order No. 2. are attached as Appendix A.

All of which is respectfully submitted,

Original signed by

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Submitted this 1st day of March, 2006