

DECISION OF THE INDEPENDENT PANEL - Application No. 01-1195

Exemption Application: Application No. 01-1195 made by Fort Frances Power Corporation ("Fort Frances").

Panel Hearing the Application: Jim Baillie and Peter Jones.

Date Application Heard: August 14, 2002.

Market Rules from which Exemption is Requested: Baseline 6.5, Chapter 4, Appendix 4.3, Reference 4.

IMO Staff also determined that Fort Frances required an exemption from section 10.3.3 of Chapter 5.

Decision: Fort Frances is granted an exemption from Chapter 4, Appendix 4.3, Reference 4. Fort Frances is also granted an exemption from section 10.3.3 of Chapter 5 as it relates to carrying out voltage reductions. The exemptions are granted on the terms and conditions specified herein.

Effective Date of the Exemption: November 23, 2001, the date the exemption application was filed.

Conditions of the Exemption: The exemption is granted on the following conditions:

- Fort Frances shall respond promptly to a direction from the IMO to reduce voltage manually.
- Fort Frances shall notify the IMO should its municipal transformer station (the "MTS") undergo expansion, a new facility is connected, or the aggregated yearly peak average demand exceeds 20 MVA.
- Fort Frances shall provide the IMO the total load when requested.

Term of the Exemption: The term of the exemption is indefinite (subject to the aforementioned terms regarding reconsideration/removal).

Reconsideration of the Exemption: The exemption should be reconsidered if:

- The Fort Frances MTS is replaced or new transformer facilities are added to the Fort Frances MTS's existing or new connections.
- The aggregated yearly peak average demand exceeds 20 MVA.

SCANNED

Transfer: Approval to transfer the exemption may be given if:

- The transfer meets applicable terms and conditions set forth in the exemption and the transfer would not affect the ability of the proposed transferee to comply with all the terms and conditions of the exemption; and
- The proposed transferee is a market participant or undertakes in writing to apply for authorization as a market participant.

Reasons of the Panel

In rendering our decision, we have considered Fort Frances' Exemption Application, the IMO Staff Recommendation, Fort Frances' response to the IMO Staff Recommendation, the applicable Market Rules and the *Exemption Application Assessment Procedure*.

Fort Frances is a local distribution company located in the Town of Fort Frances. Fort Frances seeks an exemption for its Fort Frances municipal transformer station (the "MTS") from the requirement to provide voltage reduction capabilities under Chapter 4, Appendix 4.3, Reference 4, of the Market Rules. IMO Staff has noted in its Recommendation to the Panel that Fort Frances also requires an exemption from section 10.3.3 of Chapter 5 of the Market Rules as this section relates to carrying out voltage reductions. Section 10.3.3 requires market participants that receive a direction from the IMO to reduce demand to achieve the reduction in demand within five minutes of receipt of the direction from the IMO.

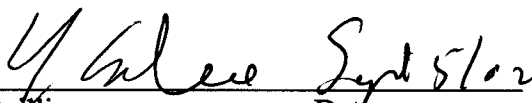
In support of its exemption request, Fort Frances says that it presently cannot carry out voltage reductions, that it would be prohibitively expensive to undertake the necessary upgrades and due to its low yearly average peak load, the impact on the IMO-controlled grid of not complying is negligible. In particular, Fort Frances states that:

- Fort Frances has not participated in voltage reductions in the past. Fort Frances operates its system from a single substation, Fort Frances MTS. The substation is unmanned and is unable to respond to an order to reduce voltage from the IMO within the 5 minutes stipulated (estimates from Fort Frances' Line Superintendent indicate it would take approximately 20 minutes to respond during regular working hours and 40 minutes after regular working hours).
- Although Fort Frances has two transformers with an aggregated capacity of 40 MVA, Fort Frances' load history indicates that it typically operates below 20 MW. The yearly average peaks range between 12 to 14 MW. The last instance of a monthly peak above 20 MW was in January 1994 when Fort Frances experienced a peak of 20.023 MW.

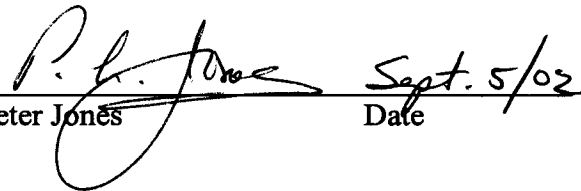
- Fort Frances' demand is not likely to increase. Over the past 10 years, Fort Frances' customer base can be characterized as holding steady or marginally declining and a recent census taken of the Town of Fort Frances shows a decline in population.
- Fort Frances says that the cost to upgrade and equip Fort Frances MTS with the capability to perform the required voltage reductions would be approximately \$250,000. In addition, Fort Frances estimates approximate annual costs of \$150,000 to employ three additional persons to operate the upgraded system. The cost would represent a 15% increase to Fort Frances' operating expenses and would necessitate an OEB rate application.

IMO Staff recommend that Fort Frances' request for an exemption from Reference 4 of Appendix 4.3 be granted and, in addition, that Fort Frances be granted an exemption from section 10.3.3 of Chapter 5 as it relates to voltage reductions. In recommending that the exemptions be granted, IMO Staff largely accept the reasons posited by Fort Frances for requiring the exemption. In particular, IMO Staff concur that Fort Frances is an unmanned station without the ability to reduce voltage within the five minutes prescribed by the Market Rules, that Fort Frances' demand is small and is expected to remain so for the foreseeable future, and the overall impact on the IMO-controlled grid of voltage reductions being carried out by Fort Frances would be minimal. IMO Staff also do not dispute the cost estimates given by Fort Frances to become compliant. IMO Staff say these cost estimates are reasonable.

The exemption is granted on the terms set forth herein. In reaching this decision, we have considered the criteria set out in section 1.5.2 of the *Exemption Application Assessment Procedure* and we are satisfied that these criteria have been met. In particular, we are satisfied that Fort Frances' non-compliance will have a negligible impact on the ability of the IMO to direct the operations and maintain the reliability of the IMO-controlled grid, and that in the circumstances, it would not be reasonable to require Fort Frances to incur the necessary upgrade and operational costs to become compliant.



Jim Bafflie Date



Peter Jones Date