

**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 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 (Lennox RMR Contract or Contract). The IESO agrees with the Board that the issues raised by the Electricity Market Investment Group (the "EMIG") in response to the Notice of Application; specifically relating to the IESO process and possible future RMR contracts are not relevant to the application, and therefore, not within the scope of issues that should be considered by the Board in this proceeding. Given that the structure of the proposed RMR Contract is substantially the same as the first RMR Contract which was approved by the Board less than nine months ago, it is appropriate for the Board to confine its review of the current application to issues pertaining to the reasonableness of the estimated operating costs and gross revenues.

2. To assist the Board in its consideration of the application for approval of the RMR Contract, the IESO's submissions address the following points:

- (i) The Lennox RMR Contract is cost effective and will not adversely impact market participants and rate payers; and
- (ii) The IESO's assessment of "need" is an integral part of to the process for establishing the requirements for RMR resources.

**I. The Lennox RMR Contract is cost effective and will not adversely impact market participants and rate payers.**

3. The EMIG claims that the Lennox RMR Contract appears to pose relatively high costs on consumers. The cost of the Contract is relative, when compared to the alternative. That is, the likely adverse impact on all market participants and consumers if Lennox is permitted to discontinue operation before alternative solutions are available to adequately address the identified reliability concerns. On review, the normalized cost under the Contract was found to be competitive with the cost of procuring RMR resources in other jurisdictions. In addition, the Board previously approved the terms and conditions, including the payment mechanism, for procuring RMR resource for Lennox. The table below provides a comparison of the net cost of procuring 2100 MW of RMR services in the various jurisdictions considered.<sup>1</sup>

<b>Jurisdiction</b>	<b>Type of Procurement Contract</b>	<b>Cost sample</b>	<b>Normalized Cost (2100 MW/year)</b>	<b>Relative to Lennox RMR</b>
New England	RMR contracts	US \$240.5 million for 4719 MW/year, in 2005	Can \$119.9 million	194 %
ERCOT	RMR contracts	US \$138 million for 1726 MW/year, in 2004	Can \$188 million	305 %
PJM	Generation Deactivation Rate	US \$33.5 million for 836 MW/year, in 2005	Can \$94.2 million;	153 %
Ontario	RMR contracts	Can \$61.7 million for 2100 MW	Can \$61.7 million	100 %*

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<sup>1</sup> The costs provided in the table above are net costs, which do not include revenues earned from the markets.

The removal of Lennox from the IESO-controlled grid and IESO-administered markets, without adequate replacement resources or mechanisms being available, will undoubtedly result in significantly adverse reliability and cost impacts on market participants and all rate payers.

**II. The IESO's assessment of "need" is an integral part of the process for establishing the requirements for RMR resources.**

4. While the assessment of "need" is not relevant to the current issues under consideration by the Board, for clarification and information purposes, the IESO comments briefly on its assessment of the need for a further Lennox RMR Contract.

5. The Market Rules direct that the IESO may enter into a RMR contract based on studies performed by the IESO which indicate that (1) in accordance with section 9.6.3 of Chapter 7, a reliability must-run resource is required to be available for the purposes of reliability, other than in situations of overall adequacy of the IESO-controlled grid, or (2) a reliability must-run resource is likely to be dispatched as a constrained-on facility or a constrained-off facility and that such a contract would avail to the mutual benefit of the parties. In addition, section 2.4.5 of Chapter 7 requires that, where the IESO conducts the technical assessment referred to in section 2.4.2 and concludes that the removal of the registered facility from service will or is likely to have an unacceptable impact on the reliability of the IESO-controlled grid, the IESO and the market participant shall commence the process for procuring RMR resource pursuant to sections 9.6 and 9.7 of Chapter 7, and section 4.8 of Chapter 5, with a view to concluding a RMR contract for the registered facility.

6. In the first RMR Contract the IESO undertook technical studies to ascertain the need for the Contract (i.e., an assessment of the reliability implications of removing Lennox from the IESO-controlled grid), taking into consideration that there were no other alternatives which could be brought to bear in a timely manner to continue maintaining the reliability of the IESO-controlled grid. The analysis revealed that there is a need for at least 3 Lennox units and likely 4 units during high demand periods over the next three years, or until additional supply is brought into service in the Toronto area or Eastern Ontario. Similar technical studies performed

following OPG's new application to deregister Lennox have confirmed the need for continued reliance on Lennox to maintain reliability in these areas other than for reasons of overall adequacy. For the current RMR Contract the IESO's analysis indicates that the reliability conditions in the Eastern Ontario and Toronto areas continue to require the availability of all four units at Lennox in 2007 – largely due to forecasted load growth, concerns for Ottawa area supply reliability, security concerns in case the new Goreway GS is not available for the summer 2007, scheduled generation outages in Northern Ontario and overall system reserve requirements. The detailed report of the technical studies that were carried out in support of the need for Lennox in 2007 is appended to this submission as Exhibit A.

7. While the Market Rules do not require the IESO to publicly disclose the technical studies carried out with respect to procurement of RMR resources, the IESO considers it useful to do so in this instance and going forward. This information may be useful to other market participants or interested parties, and may facilitate the development and consideration of alternatives. In particular, this would be useful in situations where stakeholders are contemplating new investments as well as situations in which the IESO employs a competitive process to identify multiple potential suppliers and to determine competitive prices for the RMR resource. The Market Rules permit the IESO to employ either a competitive tendering process or single source process for concluding RMR Contracts. The specific process employed for concluding RMR contracts will depend on the nature of the reliability concern, and the availability of alternative solutions to the identified reliability concerns. In the case involving Lennox, the IESO determined that a single source procurement process was appropriate given that there were no comparable alternatives available or which could be reasonably brought to bear in a timely manner.

8. The provisions set out in the Market Rules for concluding RMR Contracts in no way limits market participants or prospective market participants from submitting proposals to the IESO through the normal connection assessment and approval process. These proposals are considered by the IESO in its assessment of possible

solutions to reliability concerns that may adversely impact the IESO-controlled grid. The IESO only procures RMR resources where adequate, cost effective alternative solutions will not be available in a timely manner.

## **Conclusions**

9. In summary, the IESO submits that:
  - (i) the Lennox RMR Contract is competitively priced when compared to similar types of RMR resource deployed in other jurisdictions. The Contract will not adversely impact market participants and rate payers. Furthermore, it is a one year cost based contract which is only being entered into based on the current assessment of need for such resources and the present lack of viable alternatives,
  - (ii) the IESO's assessment of "need" is an integral part of to the process for establishing the requirements for procuring RMR resources. The specific "need" for the Lennox RMR Contract was established by the IESO technical studies of the expected reliability effects of removing Lennox from the IESO-controlled grid. These studies demonstrate the continued requirement for 4 Lennox units during periods of high demand until such time as additional supply is brought into service in Eastern Ontario and the Toronto area, and
  - (iii) though the Market Rules do not require the IESO to publicly disclose the technical studies which established the need to procure RMR resources, the IESO has disclosed its report on the technical studies conducted and undertakes to continue to do so.

The IESO endorses the Lennox RMR Contract and requests Board approval of the Agreement to enable the parties to proceed with its timely implementation.

***ALL OF WHICH IS RESPECTFULLY SUBMITTED  
ON BEHALF OF THE INDEPENDENT  
ELECTRICITY SYSTEM OPERATOR,***

***Original signed by***

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Carl Burrell  
Senior Regulatory Analyst  
Independent Electricity System Operator

Submitted this 29<sup>th</sup> day of November, 2006