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**IESO Staff Recommendation to Panel on  
Exemption Application (General)**

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All information submitted in this process will be used by the *IESO* solely in support of its obligations under the "Electricity Act, 1998", the "Ontario Energy Board Act, 1998", the "Market Rules" and associated policies, standards and procedures and its licence. All submitted information will be assigned the appropriate confidentiality level upon receipt.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the "Market Rules".

**PART 1 – GENERAL INFORMATION**

*Market Participant Name:* Northland Power Inc.

*Location/Site:* Thorold Cogen L.P.

*Exemption Application ID:* 1336

*Market Participant ID:*

*Description of Exemption Requested:* Settlement of CMSC and GCG

*Date Exemption Application Received:* November 22, 2010

*Date all relevant application information supplied by exemption applicant:* November 22, 2010

*Management Approvals Obtained:*  Yes  No

Are there any outstanding disputes, compliance actions, or pending *market rule* amendments involving the subject matter of this *exemption application*?  Yes  No

Are there any outstanding disputes, compliance actions, or pending *market rule* amendments involving the *exemption applicant*?  Yes  No

*Section of the Exemption Application and Assessment Procedure under which the exemption application is made:*

- Section 1.4.1 "Application for Exemption – General"

*Market Rule(s) or related Market Manual(s) from which exemption is requested:* Chapter 9, sections 3.5.2, 4.7B.1, 4.7D.1

*Third Party Submissions Received:*  Yes  No

*Supplemental Assessment Information Attached:*  Yes  No

**PART 1 – GENERAL INFORMATION**

Related Historical *Exemption Application(s)* or Related *Exemption Application(s)* in Process:

Yes    No

**Note:** If YES, list History of *Exemption Applications*:

Role of *exemption applicant* in the market as it relates to this *exemption application*: Generator

**PART 2 – RECOMMENDATION**

**Recommendation:** Grant the exemption with the following conditions:

- The exemption shall be limited to the facilities that are currently on the site that is to be aggregated, as of the date that the exemption application was submitted.
- The exemption shall remain in effect for the lifetime of the cogen generation facility when it is registered as an aggregated facility.
- The exemption shall remain in effect for so long as the current arrangements between Northland Power and Abitibi remain in place.

**Criteria Used in Assessment of General Exemption Applications (Section 1.4.2 of Exemption Application and Assessment Procedure):**

(If X appears in a box, the criterion is applicable to this *exemption application* and is evaluated in Part 3 - Details of Assessment; if X does not appear in a box, the criterion is not applicable to this *exemption application*.)

Whether the *exemption* that is the subject-matter of the *exemption application* would, if granted, materially:

**[ None of the criteria in the section below are considered to have any material impact and, as such are not selected ]**

- impact the ability of the *IESO* to direct the operations and maintain the *reliability* of the *IESO-controlled grid*;
- impact the ability of the *IESO* to ensure non-discriminatory access to the *IESO-controlled grid*;
- affect the ability of the *IESO* to operate the *IESO-administered markets* in an efficient, competitive, and reliable manner;
- increase costs of *market participants*; or
- increase costs of the *IESO*;

Whether the *exemption* that is the subject-matter of the *exemption application* would, if granted, give the *exemption applicant* an undue preference in the *IESO-administered markets*;

**PART 2 – RECOMMENDATION**

Whether the cost or delay to the *exemption applicant* of complying with the obligation or standard to which the *exemption application* relates is reasonable, having regard to the nature of the obligation or standard, the nature of the *exemption application* and the anticipated impact of non-compliance by the *exemption applicant* in terms of the elements referred to above;

The adequacy of the *exemption plan* submitted by the *exemption applicant*;

Where the *exemption applicant* is the *IESO*, the identification of the benefit to *market participants* of compliance with the obligation or standard relative to the financial and other resources required to achieve compliance within such deadlines as may be applicable;

Where the *exemption applicant* is the *IESO*, the manner in which it proposes to operate in the *IESO-administered markets* or direct the operations and maintain the *reliability* of the *IESO-controlled grid* during the period in which the *exemption* would be in effect;

Whether the *facility* or equipment that is the subject-matter of the *exemption application*:

- was in service or was returned to service on the date on which the obligation or standard to which the *exemption application* relates came into force;
- was ordered by the *exemption applicant* on or prior to the date on which the obligation or standard to which the *exemption application* relates came into force; or
- was in the process of construction on or prior to the date on which the obligation or standard to which the *exemption application* relates came into force; and

The capability of the owner of the *facility* to operate the *facility* consistent with the terms of the proposed *exemption*.

**PART 3 – DETAILS OF ASSESSMENT**

**SUMMARY:**

## PART 3 – DETAILS OF ASSESSMENT

### 1. Exemption Request:

Northland Power Inc. is requesting an exemption from the market rules which require that the settlement of aggregated facilities be based on a single quantity that reflects net injections/withdrawals for the aggregated facility as a whole. Instead, Northland is requesting that its aggregated facility receive congestion management settlement credits (CMSC) and real-time and day ahead generation cost guarantees (GCG) based on quantities that represent injections from the generator component of the aggregated facility.

The request is for the exemption to be for the lifetime of the facility.

### 2. Market Rule Requirements:

Chapter 9 specifies that a single measured quantity (AQEI) shall be used for determining all settlement amounts for a given transaction. More specifically, Chapter 9, sections 3.5.1, 4.7B.1 and 4.7D.1 specify that CMSC and GCG amounts are based on AQEI. For an aggregated facility that is comprised a generator and a load, AQEI represents the aggregated facility's net injections or withdrawals.

As a consequence, under the market rules aggregated facilities will incur a reduction in CMSC and cost guarantees associated with the load portion of an aggregated facility when it is consuming energy.

### 3. Background

Northland's Thorold Cogen facility was designed and expected to operate as an aggregated facility based on the aggregation of a 260 MW generator with the much smaller electrical load consumed by the Abitibi Mill. Northland has advised that their proposal, successfully submitted to the OPA's competitive Combined Heat and Power RFP in 2006, assumed that aggregation would mean that:

- a) Abitibi would receive the benefit of not paying global adjustment and certain other wholesale market charges to the extent that the generator operates to offset their consumption; and
- b) Northland would be entitled to CMSC and GCG based on the generator's actual production

In August 2010, Northland submitted a market rule amendment to effect the change noted above. Notwithstanding the Technical Panel majority vote of recommendation, IESO Management recommended against the amendment proposal as it related to GCG treatment. At its meeting on November 11, 2010, the IESO Board rejected the amendment proposal, and directed IESO Management to consult on the principles to be reflected in a further rule amendment regarding the treatment of aggregated facilities for generation cost guarantees. However, given the unique circumstances surrounding this specific facility, the Board also advised that it would entertain an exemption application from Northland Power

### **PART 3 – DETAILS OF ASSESSMENT**

that would achieve the settlement treatment they were seeking through their proposed market rule amendment.

#### **ASSESSMENT:**

Allowing the Northland/Abitibi aggregated facility to be exempt from the market rule requirement to be settled on the quantity that represents the facility's net injections/withdrawals would have no impact on the ability of the IESO to direct the operations and maintain the reliability of the IESO-controlled grid.

This exemption, if granted, would not materially increase market participant or IESO costs. If granted, the exemption would result in incremental GCG payments by consumers in the range of \$2 million annually, which is approximately 2% of total annual GCG payments.

Furthermore, the granting of this exemption is not expected to impact the ability of the IESO to ensure non-discriminatory access to the IESO-controlled grid. Thorold Cogen is the first aggregated facility of its kind and the issues with CMSC and GCG only came to the IESO's attention during the registration process for Thorold Cogen. Although further discussions are required to arrive at an enduring solution, the existing treatment has been clarified through the market rule amendment process – refer to market rule amendment MR-00372: Settlements - CMSC and GCG Treatment for Aggregated Facilities.

#### **RECOMMENDATION:**

It is recommended that the exemption for Northland's Thorold Cogen facility be granted for the lifetime of the facility, with the conditions noted above.

**PART 4 – TERMS AND CONDITIONS**

<b>Effective Date of Exemption</b> (or event causing <i>exemption</i> to become effective)	The date that the cogen generation facility is registered as an aggregated facility.
<b>Date of Expiration of Exemption</b> <ul style="list-style-type: none"> <li>• If greater than 5 years, the Panel must be satisfied that the circumstances justify a later date.</li> <li>• Circumstances which will cause the <i>exemption</i> to immediately expire.</li> </ul>	End of life of the cogen generation facility provided it is registered as an aggregated facility.  See Conditions set out above
<b>Market Rule(s) or related Market Manual(s) from which the <i>Exemption</i> is granted.</b>	Chapter 9, sections 3.5.1, 4.7B.1, 4.7D.1
<b>Restrictions on the manner of operation and/or additional obligations to be met during the term of the Exemption, if any.</b>	None
<b>Monitoring Information Required</b> Information required to be provided by the <i>exemption applicant</i> for monitoring by the <i>IESO</i> .	None
<b>Payment of Costs</b> <ul style="list-style-type: none"> <li>• Processing Costs (when introduced)</li> <li>• Incremental <i>Exemption</i> Costs</li> <li>• <i>Settlement amounts</i> to be withheld or repaid.</li> </ul>	None
<b>Reconsideration/Removal</b> <ul style="list-style-type: none"> <li>• Date on which the <i>exemption</i> will be reconsidered (if applicable).</li> <li>• Circumstances under which the <i>exemption</i> will be reconsidered (if applicable) other than unforeseen future change in circumstances.</li> </ul>	Not applicable

**PART 4 – TERMS AND CONDITIONS**

<b>Transferability</b> <ul style="list-style-type: none"><li>List the terms and conditions that need to be met to allow for a transfer of this <i>exemption</i> to be approved by <i>IESO</i> staff.</li></ul>	None
<b>Other:</b>	None