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The Role and Outlook for Ontario's Non-utility Generators (NUGs) in the Ontario Power System

Macquarie Power & Infrastructure Fund
Annual Investor Day
November 20, 2008

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What are we talking about?

- Nearly 90 NUGs in operation.
- First were commissioned in the early 1990s, and have PPAs of duration from 15 to 50 years.
- Total capacity of the PPAs is 1,652 MW, of which 1,464 MW was represented by the largest 20 projects
 - Many of the projects are natural gas, biomass and hydro based, and many of them provide steam or other thermal energy to industrial hosts.
 - These facilities employ in excess of 250 highly skilled people, in addition to the more than 1,500 employees employed by NUG customer facilities;
- This capacity brings significant value to Ontario's electricity system and its economy.



Plant Name	Owner	Location	MW	Facility type
Cardinal Power	Macquarie Infrastructure Fund	Cardinal	156	Cogen
Lake Superior Power	Brookfield Power	Sault Ste. Marie	110	Cogen
Cochrane	Northland Power	Cochrane	38	CC Gas & Wood
Iroquois Falls	Northland Power	Iroquois Falls	126	Cogen
Northland - Kingston	Northland Power	Bath	110	Cogen
Northland - Kirkland Lake	Northland Power	Kirkland Lake	103	CC Gas & Wood
Calstock (Hearst)	EPCOR	Hearst	35	Enhanced CCGT
Kapuskasing	EPCOR	Kapuskasing	48	Enhanced CCGT
Nipigon	EPCOR	Nipigon	40	Enhanced CCGT
North Bay	EPCOR	North Bay	48	Enhanced CCGT
Tunis	EPCOR	Tunis	48	Enhanced CCGT
West Windsor	Suez	Windsor	112	Cogen
TransAlta - Mississauga	TransAlta	Mississauga	110	Cogen
TransAlta - Ottawa	TransAlta	Ottawa	66	Cogen
TransAlta - Windsor	TransAlta	Windsor	65	Cogen
Total	15		1215	



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The Issue

- A number of the underlying gas contracts for these larger facilities have already expired and PPAs are set to expire from about 2012...
- To continue to rely on these plants, major capital will be required to extend their life and to reconfigure them to operate to meet the needs of the hybrid market.
 - Planning of capex needed to make these plants suitable for the Ontario market cannot be undertaken overnight.
 - Ontario market does not provide sufficient revenue to recover cost of and return on capital.
- Follow-on contracts are required in order that these plants continue to be economic and available to support system adequacy



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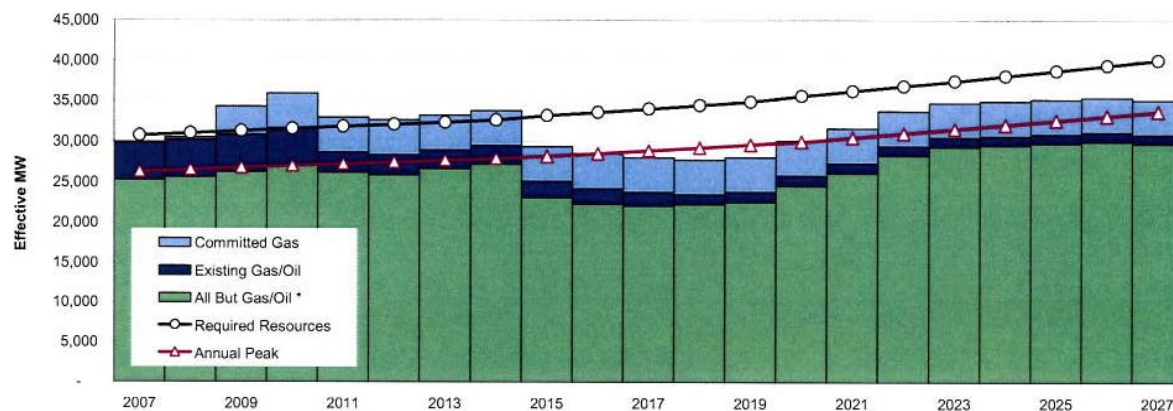
The Issue

- The OPA recognizes this issue within the current IPSP
 - “There are also a number of gas-fired generators, known as non-utility generators or NUGs, which are assumed to operate as baseload resources because of the contractual terms of their current NUG contracts. The Plan assumes that for the NUG contracts that expire by 2015, the associated capacity will continue, but will meet intermediate and peaking load requirements, depending on whether the NUGs are CCGT or SCGT resources, respectively.”
 - » IPSP -- Ref: B-1-1, pp.22-23; Issues A15, A16, A17, A19:



The issue

- The OPA's current thinking on the future of the NUGs is that "...When these contracts expire, the facilities can operate more efficiently to meet intermediate and peaking load needs."
- The following chart produced by the OPA for the IPSP demonstrates that all accounted for gas-fired generation currently in the province will be needed well beyond 2010:



Source: OPA (Exhibit D-8-1, Figure 3)



APPRO's Position

- These are fundamentally good assets which provide important economic and system benefits
 - No or limited licensing and permitting requirements minimizing NIMBY issues
 - No or limited new environmental issues
 - Cost effective alternative compared to new build as facilities are near fully depreciated
 - Improved system reliability as no/limited uncertainties from permitting, construction delays
 - For taxpayers, supports continued employment, industry hosts and economic activity
 - Environmental benefits including reduced environmental footprint by avoiding major new construction, decreased reliance on coal generation and continued environmental benefits of CHP operations.



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APPRO's Position

- The province should start now to negotiate follow on arrangements to ensure they remain in operation
- A Ministerial Directive should be the means to provide the OPA with the authority to get on with this task
 - Direct the OPA to develop a NUG follow-on procurement process for those facilities willing to negotiate with the OPA; and that
 - The contracts should be based on the core contract framework the OPA has already developed to provide capacity payments at lowest consumer cost, and with maximum reliance on the IESO market to provide real time operating incentives (e.g., CES/CHP/CESOP). This will ensure the system adequacy and value opportunities that these facilities represent.

Current Status

- APPrO has been lobbying hard with all the players to get this done
 - We have pitched this to the OPA, the Minister of Energy & Infrastructure, Premier's Office and OEFC
 - OPA has hired a consultant to review possible contractual mechanisms to suit diverse operations, and a consultant to determine the suitability of the individual NUGs to ongoing system needs
 - We believe that all parties understand the issue and are not fundamentally opposed to action, however it is not on the top of the issues list. The current review of the IPSP has resulted in further stall.



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The Government Position

- “The NUGs and Early Movers are a significant overall contributor to Ontario’s energy supply. As such, the future of these generators as their contracts expire is a matter of concern to the government. The precise means and schedule by which contracts NUGs and Early Movers will be renewed is a question that will require consultation with partner ministries and the Ontario Power Authority. Ministry of Energy staff will be pursuing these considerations in the coming weeks and months.”
 - Ontario Energy Minister Phillips to APPRO President David Butters, April 16, 2008

Other NUG Issues

- TCPL tolls are another issue which APPrO has undertaken to resolve for its members
- 2009 Interim tolls as at Jan 1 will be \$1.19 compared to \$1.09 last year, but this is below the final 2008 toll of \$1.40.
- APPrO's goal is absolute toll levels as referenced in Settlement Agreement plus toll stability & predictability
- Current conditions are likely to result in further declines in mainline throughput, but it is impossible to predict what this might look like today
 - A toll closer to \$1.25 is more likely

- However, the discussion of these matters is subject to a NDA within the TCPL Tolls Task Force
- Our view is that TCPL is looking to find ways to provide greater inter and intra year toll stability – this is an extremely challenging matter....
 - Parties are trying to work within the 2007 Settlement Agreement which goes to 2011, but litigation at the NEB is always a possibility but the shipper community is very diverse and there are many conflicting interests
 - There are many drivers, over which TCPL and shippers have little control
- At the end of the day, the current regulatory model may have to be re-engineered, but that is discussion well beyond today's session!



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APPrO is a non-profit organization representing more than 100 companies involved in the generation of electricity in Ontario, including generators and suppliers of services, equipment and consulting services. APPrO members produce power from co-generation, hydro-electric, gas, coal, nuclear, wind energy, waste wood and other sources. APPrO's members currently produce over 95% of the electricity made in Ontario.

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