RE: Kirkland Lake

From: Ronald Kwan <ronald.kwan@ofina.on.ca>
To: "Imbrogno, Serge (ENERGY)" <serge.imbrogno@ontario.ca>
Cc: "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>, "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>
Date: Mon, 27 Mar 2017 15:11:14 -0400

Hi Serge,

Sure.

Ron

-----Original Message-----
From: Imbrogno, Serge (ENERGY) [mailto:Serge.Imbrogno@ontario.ca]
Sent: March-27-17 15:11
To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: Re: Kirkland Lake

Hi. You can talk to JoAnne Butler. Thanks

Sent from my iPad

> On Mar 27, 2017, at 3:04 PM, Ronald Kwan <Ronald.Kwan@ofina.on.ca> wrote:
>
> Hi Serge,
>
> Sure. Is there a particular person at the IESO whom you are thinking of?
>
> Ron
>
> -----Original Message-----
> From: Imbrogno, Serge (ENERGY) [mailto:Serge.Imbrogno@ontario.ca]
> Sent: March-27-17 14:51
> To: Ronald Kwan <Ronald.Kwan@ofina.on.ca>
> Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Scott Thompson (CAB) <Scott.Thompson@ontario.ca>
> Subject: RE: Kirkland Lake
>
> Hi Ronald,
>
> Just to be clear, IESO stated that OEFC's interpretation of cap and trade costs that can be passed through to ratepayers is more generous than the IESO interpretation and they specifically noted OEFC's treatment of the Kirkland Lake NUG. So it would be helpful if you could work with the IESO to clarify.
>
> Serge
>
> -----Original Message-----
> From: Ronald Kwan [mailto:Ronald.Kwan@ofina.on.ca]
> Sent: March-25-17 9:02 PM
> To: Imbrogno, Serge (ENERGY)
> Cc: Mayman, Gadi (OFA); Thompson, Scott (MOF)
> Subject: Re: Kirkland Lake
>
> Hi Serge,
>

> I believe as part of the curtailment initiative that IESO has access to all the gas NUG PPAs under discussion, and staff have provided summaries of essential elements, and had discussions with IESO staff. We can certainly connect again to help them understand the PPAs.
>
> As most of the NUG gas PPAs are part of the IESO curtailment initiative, that process has removed most of OEFC's large cap and trade affected NUGs I believe.
>
> Ron
>
>> On Mar 25, 2017, at 3:37 PM, Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca> wrote:
>>
>> Thanks Gadi. It would be helpful if Ron were to follow-up with the IESO to make sure there is no misunderstanding of how OEFC is treating cap and trade and that the Kirkland Lake circumstances may be different than IESO's understanding.
>>
>> Sent from my iPad
>>
>> On Mar 25, 2017, at 3:19 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca<mailto:Gadi.Mayman@ofina.on.ca>> wrote:
>>
>> Hi Serge. Following our conversation yesterday afternoon about Kirkland Lake, I'd asked Ron about the NUG negotiations which go back four years. Hopefully his note below answers any questions that you'd received. Please let me know if you have any follow-ups.
>>
>> Thanks,
>> Gadi
>>
>>
>> Begin forwarded message:
>>
>> From: Ronald Kwan <Ronald.Kwan@ofina.on.ca<mailto:Ronald.Kwan@ofina.on.ca>>
>> Date: March 25, 2017 at 11:36:53 AM EDT
>> To: Gadi Mayman <Gadi.Mayman@ofina.on.ca<mailto:Gadi.Mayman@ofina.on.ca>>
>> Subject: Kirkland Lake
>>
>> Hi Gadi,
>>
>> As noted, OEFC position has been to say generally, on discussions with NUGs with PPAs that are affected by the introduction of cap and trade and a carbon cost, that the PPAs do not provide for passing through changes to the NUGs natural gas costs.
>>
>> OEFC has previously discussed with NUG representatives that, for PPAs that do not provide for pass through of cap and trade costs, that it would not be appropriate for OEFC to amend those agreements in a way that would increase its costs, and costs for ratepayers.
>>
>> However, the Kirkland PPA does provide for natural gas cost pass through.
>>
>> As requested, a few points with respect to the Kirkland Lake PPA are below.
>>
>> Note, I'd assume that these are being provided to Serge in his role as an OEFC Board member, noting to him that PPA terms are considered commercially sensitive and confidential.
>>
>> * Under the KLPC Power Purchase Agreement (PPA), rates for gas-fired generation after August 2015 for the final 15 years of the 40-year PPA were to be negotiated provided the NUG has been able to secure a gas contract.
>> - Northland Power had indicated that it could obtain a gas contract for the final 15 year period of the PPA.
>>
>> - Northland first approached OEFC on this in 2012, in order for it to have certainty, secure the gas contract, and have time to make necessary capital expenditures.
>>
>> - Northland's position had been to continue the current rate structure, which included price escalation tied to the rate of change of the direct customer rate (DCR new) (and for the first 20 years, the greater of the

change in DCR or 4%).
>>
>> - OEFC took the position (as approved by the OEFC Board as OEFC's negotiating position in April 2013) of a cost based approach for the natural gas generation PPA rate for the final 15 years of the contract, including a cost pass-through approach for gas (which would be affected by the recent introduction of a cost for carbon).
>>
>> - Negotiations and due diligence on the costs on the cost-based approach spanned 2013 and 2014.
>>
>> - This shift to a cost-based approach resulted in a significant reduction in the PPA rate starting in year 26 of the PPA for the gas-fired generation under the PPA, and delinked the rate from DCR(new) (so not affected by the GA).
>>
>> I hope that helps explain the context and timeframe for the PPA rate and gas cost pass-through structure that was put in place a number of years ago.
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>> Ron
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>> ________________________________
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