

Export Transmission Service (ETS) Tariff Study & Recommendations

2011 – 2012 Hydro One Transmission Rate Application
Stakeholder Consultation Session – March 2, 2010



- The ETS tariff has not changed since its original inception in 1999
- As a result of the decision in Hydro One's transmission rate proceeding for 2007/2008 the IESO was identified as the entity to undertake a study of an "appropriate" ETS tariff and, through negotiation with neighbouring jurisdictions, to pursue acceptable reciprocal arrangements with the intention to jointly eliminate all ETS tariffs
- The IESO established a Stakeholder initiative and undertook the study over a period of 9 months from December 2008 – August 2009
- The IESO filed its report and recommendations for an appropriate ETS charge for Ontario in August 2009

- ETS tariff design and rate options considered:
 - Option 1 – status quo (baseline scenario),
 - Option 2 – equivalent average embedded network rate (~\$/MWh),
 - Option 3 – reciprocal tariff treatment,
 - The mutual elimination of all ETS tariffs between jurisdictions
 - Reciprocal treatment based on avg. embedded network cost in each jurisdiction, except New York where it was eliminated
 - Option 4 – Ontario unilaterally eliminates ETS tariff (Per stakeholder request)
 - Unilateral ETS tariff elimination, all hours
 - Unilateral ETS tariff elimination, off-peak hours only

- The IESO reviewed the potential incremental impacts of ETS tariff options with respect to HOEP, export revenues, export and import volumes and Ontario market efficiency
 - Aim was not to optimize these parameters; rather, to ascertain the incremental impact on each of these key parameters
- The potential incremental impacts on air emissions, given state of current and emerging emissions policies was also assessed
- In addition, the IESO reviewed the potential impacts of the various tariffs on surplus base-load generation (SBG) events (e.g., magnitude, duration and timing)
- Reviewed and assessed potential regulatory and legal implications, and reliability and operability consequences associated with ETS tariff option.

- The IESO engaged in discussions with neighbours regarding reciprocal treatment of ETS tariff, including potential tariff elimination
 - With the exception of New York, our discussions concluded that elimination of the ETS tariff was not considered a priority for our neighbours at that time
 - Although the results of discussions were not overly favourable they nevertheless informed the choice of ETS tariff options and study approach

Key Findings and Conclusions

- Based on the principles that were considered appropriate at the time of undertaking the study (i.e., simplicity, consistency with neighbouring rates, fairness and net benefit), the results showed Option 2 best meeting these criteria.
- The ETS tariff study findings and recommendation served to highlight the operational benefits of the export electricity market to Ontario
- Consideration of ETS tariff design principles, or an ETS tariff, that will maximize the benefits of integrated regional electricity markets and trades is a desirable goal
- The IESO should continue to proactively engage willing neighbours to pursue joint elimination of the export tariff (starting with New York)

- The electricity sector is undergoing significant changes as a result of economic conditions, the introduction of the Green Energy Act and increased occurrences of surplus baseload generation
- The IESO recommends that we maintain the ETS tariff of \$1.00/MWh throughout the period of the current planned transformation of the electricity industry in Ontario or until the IESO has engaged and concluded discussions with willing neighbouring system and market operators regarding reciprocal elimination of the export tariffs with respective jurisdiction(s).
- Any reciprocal agreement(s) negotiated by the IESO would supersede the existing ETS tariff applicable to transactions between the agreeable jurisdictions , subject to the approval of the Ontario Energy Board