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BY EMAIL & COURIER

May 14, 2009
File No. 101926.1053

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Yonge-Eglinton Centre
P.O. Box 2319, Suite 2700
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Export Transmission Service Tariff Review
Board File No. EB-2008-0272**

As counsel for the Independent Electricity System Operator ("IESO"), we write in response to the letter of May 11, 2009 from Mr. Adam White of Association of Major Power Consumers in Ontario ("AMPCO"). We disagree with a number of the assertions in Mr. White's letter and believe it is important for the IESO to provide clarification in this regard, as well as reinforce the basis for the additional time requested to complete our work.

In its letter, AMPCO has not accurately characterized the allocation of responsibility between the IESO and Hydro One in the development of a replacement to the current tariff for Export Transmission Service ("ETS"). AMPCO contends the responsibility for making a recommendation on the export tariff lies with Hydro One, not with the IESO. However, the settlement agreement in EB-2006-0501 stated the "IESO should now be identified as the entity responsible to pursue and negotiate, with neighbouring jurisdictions, acceptable reciprocal arrangements with the intention to eliminate the ETS tariff, and study the appropriate ETS tariff". Under the settlement agreement, Hydro One's responsibility is limited to seeking regulatory approval of any recommended changes to its approved transmission tariff and revenues that may arise from the IESO's study. Therefore, AMPCO's claim that Hydro One is responsible for recommending a replacement ETS tariff is incorrect.

Also, Mr. White does not accurately portray the complexity of assessing alternatives to the current ETS tariff. In addition, Mr. White incorrectly asserts that

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the ETS tariff is to be designed only in accordance with "normal cost allocation principles". No such direction was presented in the settlement in EB-2006-0501 or any prior Board order. In fact, this is only one consideration that the IESO must consider. Further, the IESO does not necessarily accept Mr. White's statement that the current ETS tariff "distorts the wholesale electricity market and harms the interests of consumers" as this will only be determined through the completion of the IESO study.

We would also like to point out that the IESO was not assigned responsibility for developing a replacement tariff when the interim ETS tariff was approved in RP-1999-0044 as AMPCO has stated. The IESO only assumed responsibility for the ETS tariff review on April 18, 2007 in accordance with the Board approved settlement agreement in EB-2006-0501. Although the IESO's ETS Tariff Stakeholder Plan (SE-78) was not released until December 2008, the IESO has had ongoing discussions and negotiations with neighbouring jurisdictions since 2007 with respect to for the potential elimination of the export tariff. The IESO also stated in SE-78 that the parties have made limited progress on the issue to date (i.e., with the exception of New York), but it certainly was not for lack of effort on the part of the IESO as Mr. White implies in his letter.

When the IESO released SE-78 in December 2008 it reconfirmed the commitment to making a recommendation of a reasonable ETS tariff by June 1, 2009 as contemplated by the settlement in EB-2006-0501. However, the emergence of recent market issues, including increased frequency of negative pricing in the Ontario market has raised new challenges in carrying out the study, as well as elevated the need for consideration of other potential ETS tariff options and scenarios. In response to suggestions from working group members, the IESO has the expanded the scope of its study to consider other ETS tariff options and scenarios (such as separate tariff which is comprised of peak and off-peak rates) that did not appear viable prior to the increased frequency of negative pricing. The IESO deferred the stakeholder meeting scheduled for April 2009 so that it could consider these additional factors and potential tariff design options further and is planning to meet with the working group again in June 2009.

The additional work arising from these developments was not contemplated in December 2008, and ignoring them would significantly distort our analysis and possible findings. The IESO requires an extension to August 14, 2009 to fully consider and consult with stakeholders on this broader range of ETS tariff options and their ramifications. We do not believe that it is in the long-term interest of any participant in the Ontario electricity market (be they a generator, customer or transmitter) to deny a relatively short extension of time to complete a comprehensive study of this complex issue, and compel Hydro One to devise a recommendation on this matter in a little more than 2 weeks.

Yours truly,

Patrick G. Duffy /mas
Patrick G. Duffy

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cc: All Intervenors in EB-2008-0272 (By Email)
Mr. Glen Macdonald, Hydro One Networks