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BY COURIER

October 6, 2010

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

Dear Ms. Walli:

EB-2010-0002 – Hydro One Networks' 2011 and 2012 Transmission Revenue Requirement Application – Undertaking Response and Update to Interrogatory Response Filing

I am attaching 5 copies of the Hydro One Networks' response to Undertakings J9.1 to J9.5 and an update to Exhibit I-4-16. Exhibit I-4-16 is being updated to correct an error discovered by the IESO in their response.

An electronic copy of the undertakings and the Interrogatory Response have been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY ALLAN COWAN FOR SUSAN FRANK

Susan Frank

Attach.

UNDERTAKING

Undertaking

TO RECONCILE $1.7 MILLION DISCREPANCY BETWEEN 2009 EXPORT VOLUMES AND REPORTED REVENUE.

Response

$16.8 million is the correct ETS Tariff Revenue for 2009.

The observed $1.7 million difference between total revenue paid in 2009 and export volumes arises from charges for exports related to segregated mode of operation at Saunders and Chats Falls. Since these exports are facilitated by way of segregated mode of operation the scheduled quantities are calculated manually and not recorded in the Commercial Reconciliation System; accordingly, they were not captured in the export volumes identified in Exhibit I-4-14, Attachment 1.

UNDERTAKING

Undertaking

TO PROVIDE DECREASE IN EXPORT VOLUMES DISTRIBUTED OVER THE PEAK AND OFF PEAK PERIODS.

Response

The following table provides a breakdown of the estimated total on-peak and off-peak export volumes.

Table 1 – Total Export Volume

ETS Tariff Option	Export Volume (GWh) - All Hours		Export Volume (GWh) - On Peak Hours		Export Volume (GWh) - Off Peak Hours	
Test Year	2010	2015	2010	2015	2010	2015
Status Quo	11,715	12,996	3,105	3,525	8,610	9,471
Avg. Embedded Network Rate	7,656	6,971	1,831	1,296	5,825	5,675
Reciprocal Treatment - Joint ETS Tariff Elimination	16,169	16,066	5,493	5,075	10,676	10,991
Reciprocal Treatment - Avg. Embedded Network Cost	11,824	12,820	3,494	3,563	8,330	9,257
Unilateral ETS Tariff Elimination - All-Hours	12,562	14,247	3,606	3,961	8,956	10,286
Unilateral ETS Tariff Elimination - Off-Peak Hours	12,083	13,731	3,048	3,495	9,035	10,235

UNDERTAKING

Undertaking

TO PROVIDE 2008 AND 2009 NET REVENUES ARISING FROM CONGESTION MANAGEMENT THAT ACCRUED TO CUSTOMERS ON THE TRANSMISSION SYSTEM.

Response

The IESO paid transmission customers a total of $57 million from the sale of transmission rights over the period from April 2007 to January 2008. Excluding April, the disbursement was paid in equal monthly sums of $4.75 million. The April disbursement was the equivalent of 3 monthly disbursements representing the February, March and April amounts totalling $14.25 million.

UNDERTAKING

Undertaking

TO PROVIDE FULLER EXPLANATION OF SECOND PART OF FOOTNOTE 9, PAGE 21 OF REPORT.

Response

One of the two scenarios considered under Option 3 involved establishing the Ontario ETS Tariff based upon the regulated average network cost of providing transmission service in each of the other jurisdictions, except as between Ontario and New York where the charge is deemed to be jointly eliminated. This would have meant that the ETS Tariff was set at an amount that did not relate to cost of providing the transmission service in Ontario, but related to the cost of providing the service in neighbouring jurisdictions. The IESO understands that the Board has broad discretion to set just and reasonable rates for the transmission of electricity; however, it is also the IESO's understanding that setting the ETS Tariff in this manner would have departed from the Board's traditional ratemaking principles.

UNDERTAKING

Undertaking

TO CONFIRM WHETHER IESO HAS DONE ANALYSIS TO ESTIMATE COST-SHIFTING FOR INDUSTRIAL CUSTOMERS UNDER PROPOSED REGULATION, AND IF SO, PRODUCE IT.

Response

Yes, the IESO has carried out some preliminary assessment and analysis of the potential cost-shifting effects of a Coincident Peak Methodology. The IESO's preliminary assessment concluded that customers who are unable to modify their demand during system peaks would be exposed to a greater degree of the cost shifting effect of the proposal. A summary of the IESO's preliminary assessment of the potential cost-shifting effects from allocating the Global Adjustment based on customers annual and monthly critical peaks are set out in the table below.

Load Category	**Current Volumetric Allocation (%)**	**Under Annual Critical Peak (%)**	**Under Monthly Critical Peak (%)**
Industrial Loads	22	15	17
Regulated Price Plan Loads	47	52	50
Non-Regulated Price Plan Loads	29	32	32
Other Loads	2	1	1

Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #16 List 1

Interrogatory

Issue 2.2: Are Other Revenue (including export revenue) forecasts appropriate?

Reference: Exhibit H1, Tab 5, Schedule 1, Attachment 1 page 9
Preamble: It is anticipated that the following questions will be addressed by the IESO.

a) Please confirm that the results of the quantitative and qualitative analysis undertaken as part of the ETS Tariff Study indicated that a tariff based on Average Embedded Network Transmission cost was the option that best satisfied the established selection principles. If not, please reconcile response with first paragraph on page 9.
b) Please confirm that the IESO's recommendation to retain the $1/MWH ETS tariff was based on changing conditions that led to concerns regarding i) increased surplus base load generation and ii) increased volatility in the supply/demand balance and the view that the higher level of exports associated with the $1/MWh tariff would help mitigate these concerns.
c) If there are any other issues (besides those articulated in part (b)) that maintaining a lower export tariff is meant to address please describe what they are and how a lower export tariff/higher export levels serve to address the concerns.
d) Please indicate when the IESO first became aware of the each of the following changing conditions:
    - Load deterioration due to economic conditions
    - Legislative changes through the GEGEA
    - Increase occurrence of base load generation
e) Why was the consultant not requested to update the analysis of the study to reflect these emerging conditions?

Response

This response is provided by the IESO.

a) b) c) d) The IESO initiated SE-78 in December 2008 to consider and study an appropriate ETS tariff base on the three options identified in HONI's 2007 rate application. The scope of the study was later expanded to consider a fourth option and to address potential SBG issues identified by some stakeholders. Charles River and Associates (CRA) was retained to undertake the study.

The CRA study was completed in August 2009. Based on defined quantitative and qualitative metrics, IESO staff concluded that option 2 (i.e., a

tariff based on average embedded network transmission costs) best met the selection criteria.

IESO management considered the CRA study along with other relevant factors, specifically: significant changes that the electricity system was undergoing as the result of the Green Energy and Green Economy Act (GEA) (i.e., substantial increases in intermittent/renewable generation); load deterioration and the prospects for future load recovery and, increased incidences of surplus base load generation (SBG). In August 2009, updated demand forecasts showed lower forecast demand than that relied upon in the CRA study. As well, there had been high incidences of SBG events in recent months (e.g., in April – August 2009, the IESO experienced 125, 39, 151, 77, and 59 hours respectively when nuclear generation or imports had to be constrained due to surplus conditions; as compared to less than 100 hours in 2008).

IESO management determined that there was a high degree of uncertainty relating to the foregoing factors and the associated consequences for operating the electricity system. IESO management also determined that the predicted benefits in switching to option 2 were relatively small as compared to overall Ontario transaction costs and that these benefits could decrease as the result of changing system conditions. As a result, the IESO decided that it would be prudent to recommend maintaining the $1/MWh ETS tariff (and thereby not do anything to dampen exports) until further time elapsed and it was possible to more fully assess the consequences of the GEA and economic recovery.

e) See Exhibit I, Tab 4, Schedule 19, part (d).