

25 Adelaide St. E
Suite 1602
Toronto ON, M5C 3A1



APPRO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

February 1, 2011

SENT BY E-MAIL

Ms. Cynthia Chaplin
Chair (Interim)
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4Toronto

Dear Ms. Chaplin:

**RE: Export Transmission Service ("ETS") Tariff HONI Transmission Rate
Decision (EB-2010-0002)**

I am writing to express the reservations of the Association of Power Producers of Ontario ("APPRO") with the decision of the Ontario Energy Board (the "Board" or the "OEB") to raise the ETS tariff from \$1/MWh to \$2/MWh. For a variety of reasons, APPRO has decided not to appeal the decision, but views the matter of sufficient importance to make its concerns known officially to the Board.

As you know, Hydro One Networks Inc. ("HONI") had proposed continuing the existing ETS tariff at \$1/MWh, on the basis of a study and recommendations from the Independent Electricity System Operator ("IESO") which was filed as part of HONI's pre-filed evidence (the "IESO Study"). The IESO was considered to be the most appropriate entity to undertake the study in a previous Board proceeding (EB-2006-0501).

The IESO Study contained both a quantitative analysis of the ETS tariff issue (carried out by Charles River Associates ("CRA")) as well as a qualitative analysis of the potential operational/reliability issues associated with a change to the ETS tariff. At paragraphs 1 and 2 of its Written Submissions, the IESO concluded that, based on the IESO Study:

"the [ETS] tariff of \$1.00/MWh [should] be maintained through the current planned transformation of the Ontario electricity sector. [Citation omitted] Specifically, [it] recommend[ed] that the current tariff be maintained until the Green Energy and Economy Act (GEA) has been further implemented – and in particular, Ontario gains sufficient experience integrating large volumes of 'intermittent' renewable resources (e.g., wind, solar energy) into the electricity system and

addressing the operational, reliability and economic challenges that the addition of these resources introduces.”

The basis for the IESO’s conclusion was reliability. The IESO was concerned that increasing the ETS tariff could reduce exports and limit the flexibility that exports provides to the IESO’s ability to manage the grid. This flexibility provided by exports is of vital importance to the IESO going forward, as Ontario continues to experience Surplus Baseload Generation (“SBG”) at the same time as it embarks on bringing on significant amounts of intermittent renewable power.

In addition to the IESO and HONI, Board Staff, APPrO, Bruce Power, and Hydro Quebec Energy Marketing Inc. also submitted that the ETS tariff should remain at \$1/MWh. Several intervenors representing consumer groups recommended that the ETS tariff be increased, although none filed any evidence to support their submissions and only three cross-examined the HONI witness panel (which included IESO staff) on the ETS tariff issue.

Notwithstanding, the Board Panel hearing the matter doubled the ETS tariff for 2011 and 2012 to \$2/MWh. APPrO respectfully suggests that this determination is problematic for a number of reasons:

- **Unsupported by Evidence:** The doubling of the ETS rate does not appear in our view to be supported by the evidence presented. The only evidence filed in this proceeding on the ETS tariff issue was the pre-filed evidence of HONI, which contained the IESO Study. The IESO Study was comprehensive (it considered a variety of quantitative and qualitative criteria), and was extensively tested both by way of written discovery and cross-examination. Moreover, the IESO Study was prepared by the entity best-suited to analyze the impact that the ETS tariff would have on export levels (and the operation of the grid). Yet the rationale and ultimate recommendations in the IESO Study do not appear to have been taken into account by the Board
- **Arbitrary:** The setting of the ETS rate at \$2/MWh is entirely arbitrary. In its reasons, the Board Panel stated that there was an “absence of any particular analytical underpinning for the current rate” (i.e., the \$1/MWh). While this may be true with respect to how the current rate of \$1/MWh was originally established in the RP-1999-0044 proceeding, it is not true with respect to continuation of the \$1/MWh rate for 2011 and 2012. Initially (in RP-1999-0044) the \$1/MWh was an arbitrary amount, set on an interim basis. However, the IESO Study and evidence in this proceeding provided appropriate support for setting the ETS tariff at the \$1/MWh level for the foreseeable future. In coming up with the \$2/MWh ETS tariff, the Panel noted the “directional preference” of the quantitative analysis performed by CRA. However, the facts underlying the CRA analysis have changed substantially (i.e. deteriorating load due to declining economic conditions, projected increases in intermittent resources due to the FIT program, and increased occurrences of SBG). Therefore, the Board’s extrapolation of the conclusions in the CRA analysis to set the ETS tariff at \$2/MWh was no longer appropriate.
- **Rate Shock:** The Board Decision increases the transmission rate charged to exporters by 100%. The doubling of rates to any class or group of customers is

highly unusual. What is especially concerning to APPrO members is that, unlike increases to other groups of customers, there are more than cost considerations that need to be considered in this case. There are potential operational issues for the IESO that result from increasing the cost of exporting. APPrO is concerned about the ultimate impact that this decision will have on export volumes and the resulting impact on system reliability and ultimately increases in SBG.

APPrO is also concerned about the impact of this decision on Ontario ratepayers. It is widely understood and accepted (as discussed in the hearing) that exports can help the province because they allow for the sale of electricity at a price just sufficient to cover the variable operating cost of supplying the export plus an additional amount to recover some of the fixed cost of the generation assets or other assets such as transmission or the cost of the system operator. If we did not export, then the Ontario consumer would ultimately have to pay these fixed costs. Increasing the cost of exports by doubling the ETS will reduce the amount exported. This will have the effect of increasing consumer costs (considering HOEP and GA). That concern is further heightened by the Ontario Power Authority's recent revenue requirement submission (EB-2010-0279), which for the first time proposes to extend the OPA usage fee to exporters in 2011.

Respectfully,

A handwritten signature in black ink, appearing to read 'David Butters', enclosed within a large, loopy oval shape.

David Butters
President & CEO

cc. The Hon. Brad Duguid, Minister of Energy