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Ms. Kirsten Walli
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Dear Ms. Walli:

HONI Transmission Rates (Interim ETS Rate) – EB-2012-0031

We are counsel to the Association of Power Producers of Ontario (“APPRO”). This letter is written following a discussion among counsel yesterday to discuss various procedural items associated with resolution of the outstanding issue in the above-noted proceeding – namely, the export transmission service (“ETS”) charge (Issue 23).

The purpose of this letter is to request that the Board clarify that the ETS charge will not be retroactively adjusted in 2013 (back to January 1, 2013) in the event that the ultimate decision of the Board is to change the ETS charge from its current \$2/MWh level. In the event that the Board is of the view that no such clarification can be made in the absence of a formal motion to review and vary (pursuant to Rule 44 of the Board’s *Rules of Practice and Procedure*), please consider this letter to be a motion.

Background

At the oral hearing on November 8, 2012, the Board made Hydro One’s existing rates interim as of January 1, 2013. Such determinations are routine in situations when it becomes clear that a Board decision and rate order will not be in place for the commencement of a utility’s new rate year. The Board decision on November 8, 2012 was handed down orally, at the hearing to consider the Partial Settlement Agreement (and one other unresolved matter). No parties made submissions on Hydro One’s request for interim rates.

Up until quite recently, the Board had been processing the Hydro One transmission application to try to have transmission rates in place as of January 1, 2013. Indeed, the Board’s Procedural Orders 3, 4, 5 and 6 (all issued in October) set out a fairly aggressive schedule for hearing the case. Similar efforts had been made in previous Hydro One transmission rate proceedings. However, this proceeding will now extend into 2013, with the ETS issue now being contemplated to proceed to an oral hearing perhaps as late as the end of February. As a result of these changed circumstances, transmission rates (including the ETS charge) will not be finally established until likely the spring of 2013, and transmission rates will be interim as of January 1, 2013.

Although it is not the practice of the Board to retroactively adjust rates back to the start of a utility’s rate year, the fact that the ETS charge will be interim as of January 1, 2013 leaves that possibility open to the Board. This creates significant transaction cost uncertainty for traders, and it is this uncertainty that APPRO is seeking to resolve.

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Grounds for Relief

By way of this letter, APPrO asks that the Board make the existing ETS charge final (at the \$2/MWh) until such time as the Board determines a new ETS charge, for the following reasons:

- Market Efficiency: Power traders cannot trade efficiently on the basis of significant uncertainty around their transaction costs. At the last hearing, the ETS charge was increased 100%, and the options studied by Charles River Associates vary widely (from \$0/MWh at all times, to an on-peak rate of \$5.80/MWh). These variations represent material fluctuations in a trader's transaction costs, which warrant some degree of certainty. To use an example, it would be inefficient to retroactively adjust the ETS that would have the effect of making previous trades uneconomic or non-executed trades economic.
- No Prejudice: This request is about transaction cost certainty – not a rate adjustment as between customers. APPrO is making this request regardless of the final determination of the ETS charge. Indeed, APPrO's position is that the ETS should be reduced. If successful, APPrO is not seeking a retroactive reduction in respect of ETS charges paid back to January 1, 2013. As noted above, in order for trading to take place in an efficient manner, transaction costs cannot be retroactively adjusted. APPrO's position is that it is more important and more efficient to trade on the basis of a fixed charge than to trade on the basis of uncertain transaction costs, even if such costs would have been reduced.

Moreover, apart from the impact to traders, granting the relief requested by APPrO in this letter would not result in rate impacts to any other transmission customer. Adjustments to the ETS charge are not akin to adjustments to the other transmission charges (i.e., network, line connection, and transformation). These mid-year adjustments are not likely to be material to the ultimate ratepayer, so certainty around rate retroactivity is not likely to be a concern.

Should you have any questions please contact me.

Yours very truly,



Richard King

RK/mnm

Cop(y/ies) to: All Parties to EB-2012-0031
David Butters (APPrO)
Ljuba Djurdjevic, Maureen Helt and Harold Thiessen (OEB)