

December 5, 2012

**Filed on RESS
Sent By Courier**Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto ON M4P 1E4

Your reference

Direct line
416.216.2311Our reference
01015413-0030Email
richard.king@nortonrose.com

Dear Ms. Walli:

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

We are counsel to the Association of Power Producers of Ontario (“APPRO”). Further to the Board’s Procedural Order No. 9, the purpose of this letter is to re-iterate APPRO’s submission that the Board clarify that the ETS charge will not be retroactively adjusted (back to January 1, 2013) in the event that the ultimate decision of the Board is to change the ETS charge from the current \$2/MWh level.

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 so as 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 is now scheduled to extend into 2013. As a result, transmission rates (including the ETS charge) will not likely be finalized until the spring of 2013. The existing transmission rates are to be interim until then.

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 APPRO’s generator members who are significant power traders as well as other power traders, and it is this uncertainty that APPRO is seeking to remove.

Grounds for Relief

APPRO submits that the Board should 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: Generators and other entities that trade power cannot trade efficiently on the basis of significant uncertainty around their transaction costs. At the last hearing, the ETS charge was increased by 100%, and the options studied by Charles River Associates in this proceeding vary widely (from \$0/MWh to \$5.80/MWh). These variations represent material risks in a trader’s transaction costs, which

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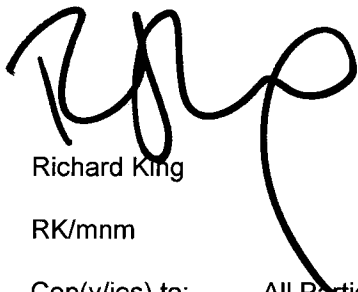
warrant some degree of certainty. Absent this certainty, efficient trading will be discouraged because there is no way to avoid the potential of a change that would either have the effect of making previous trades uneconomic or non-executed trades economic.

- No Prejudice: The request for a final ETS charge is about transaction cost certainty – not a rate adjustment as between customers. APPrO is making this submission regardless of the final determination of the ETS charge. Indeed, APPrO's position is that the ETS should be reduced – and 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 generators and other 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)