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- 3 TO PROVIDE REASON FOR DECISION TO CREATE STABILIZATION ACCOUNT
- 4 AND ITS INTENDED PURPOSE

5 Response

- 6 In July 2003, the IESO Board approved IESO management's recommendation to auction
- 7 increased Transmission Rights (TRs) to maintain a surplus or reserve level for the TR
- 8 clearing account.
- 9 IESO's management's recommendation was made, in part, on the basis of section 4.7.1 of
- 10 Chapter 8 of the Market Rules, which state:
- 4.7.1 The IESO Board shall establish a confidence level reflecting the degree to which the congestion rents collected by the IESO in a given period described in section 4.18.1.1 will be sufficient to cover the IESO's payment obligations to TR holders under section 4.4.1 for that period.
- 15 IESO management's recommendation was also based on consideration of the following factors:
 - providing a hedge for congestion costs is generally good for traders;
 - Ontario consumers benefit from increased TRs because more TRs could lead to more hedged trades, which, for imports, leads to more competition;
 - TRs are not just a product for generators; they can be purchased by loads, generators, importers, exporters, or any other financial market participants;
 - a small increase in TRs is significant in the TR market, while the corresponding cost impact to the energy market is relatively small;
 - Ontario relied on imports for reliability and competition.

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Based on the foregoing, IESO management determined that the benefits of using TR auction revenues to fund increased TRs likely exceeded the benefits of a discount that Ontario consumers would otherwise receive and IESO management therefore recommended varying the volume of monthly TRs sold in order to maximize the number of TR's available and to maintain a surplus reserve in the TR clearing account.