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File 20805

March 21, 2013

VIA COURIER and *RESS FILING*

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: OEB File No. 2012-0031 – Hydro One Networks Inc. Transmission Rates
Submission of the Power Workers' Union On Rates for Export Transmission Service

Enclosed please find the Submissions of Power Workers' Union in connection with the above-noted matter. Two paper copies are enclosed. In addition, an electronic pdf version has been filed through the Board's *RESS* filing system.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Richard P. Stephenson

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EB-2012-0031

IN THE MATTER OF the Ontario Energy Board Act, 1998, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF a review of an application filed by Hydro One Networks Inc. for an order or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2013 and 2014.

Submission of the Power Workers' Union

O n

Rates for Export Transmission Service

1 Introduction

1.1 Background

1. On May 28, 2012, Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board (OEB or the "Board") seeking approval for changes to its 2013 and 2014 transmission revenue requirement and for changes to the provincial uniform transmission rates charged for electricity transmission, to be effective January 1, 2013 and January 1, 2014.

2. Hydro One and intervenors held a Settlement Conference on October 23, 24, 25 and 26, 2012. The parties to the Settlement Conference were able to reach agreement on most issues except for Issue #23 - the appropriate Export

Transmission Service ("ETS") tariff for 2013 and 2014. Accordingly, the parties agreed that Issue # 23 should proceed to an oral hearing.

3. On November 8, 2012, the Board accepted and approved the settlement agreement.

1.2 The Current ETS Tariff

4. When the initial ETS tariff of $1.00/MWh was set at market opening, the tariff was considered by the Board as an 'interim solution' and 'a reasonable compromise' between the many competing interests and proposals that were advanced by stakeholders in the course of Hydro One's transmission rate proceeding.[1] Stakeholders have always disagreed as to the basis and purpose of the tariff design and the appropriate transmission network charge level to facilitate export and wheel-through transactions and to mitigate transmission rates for Ontario consumers through ETS revenue offset of transmission revenue requirements. Furthermore, there have been concerns about potential impacts of the tariff on trade, market efficiency and the environment.

5. In Hydro One's 2007-2008 Transmission Rate Application (EB-2006-0501), the Board approved a stakeholder settlement agreement which called for the ETS tariff of $1/MWh to be maintained. However, the Independent Electricity System Operator ("IESO") was identified as the entity responsible for undertaking a study on an appropriate ETS tariff and, through negotiation with neighbouring jurisdictions, to pursue acceptable reciprocal arrangements with the intention of jointly eliminating all ETS tariffs. It was understood that any proposed change to the tariff must be reviewed and approved by the Board as part of Hydro One's transmission rate review and approval process.

[1] Decision with Reasons, Ontario Hydro Networks Company Inc. Transmission Rate Application, RP-1999-0044, Export and Wheel-through Transactions

6. The IESO's initial ETS tariff study[2] was filed with the Board on August 28, 2009 (EB-2010-0002). The IESO found that implementing an ETS tariff such as an Equivalent Average Network Charge of $5.0/MWh, while appearing to be attractive from the perspective of increased export revenues, would place downward pressure on export volumes in a climate of lower electricity demands and a future faced by potentially significant increases in variable renewable generation. In the IESO's view, this would not be a prudent decision considering the new reality of the electricity market in Ontario. The IESO's recommendation was therefore to maintain the status quo.

7. In the EB-2010-0002 Decisions with Reasons issued on December 23, 2010, the Board, however, increased the tariff to $2.00/MWh. In making the change, the Board stated that it sought to recognize the directional preference of the 2009 Charles River Associates ("CRA") study, filed by the IESO in EB-2010-0002 and the absence of any particular analytical underpinning for the current rate. The Board also concluded that the most pressing requirement was that a genuinely comprehensive study be undertaken to identify a range of proposed rates and the pros and cons associated with each proposed rate. The Board stated that the IESO was the most appropriate party to administer the study and directed the IESO to procure the study.

1.3 The 2012 Charles River Associates Export Transmission Service Study

8. CRA was engaged by the IESO to perform an analysis of different ETS tariff scenarios for the years 2013, 2015, and 2017. On June 28, 2012, the IESO delivered to Hydro One, for filing with the Board, the final ETS Study ("2012 CRA Study") and Addendum.

9. Using the Status Quo of $2.00/MWh, as the benchmark, CRA estimated the effects of four ETS scenarios on a number of market outcomes. CRA also used the

[2] EB-2010-0002, Exhibit H1-5-2, Attachment 1, Page 1 of 140

estimated effects to calculate the change in the net economic benefits to groups in Ontario under each of the four ETS tariff scenarios.

10. The four tariff options (in addition to the Status Quo of $2.00/ MWh rate) studied by CRA are:

1) the unilateral elimination of the export tariff in Ontario (i.e., a $0.00/ MWh rate);
2) an increase in the ETS tariff to the current Equivalent Average Network Charge ("EANC") of $5.80;
3) a tiered rate of $5.80/ MWh during on-peak hours and $0.00/ MWh during off-peak hours; and
4) a tiered rate of $3.50/MWh on-peak and a $1.00/ MWh off-peak.

CRA does not make a recommendation with respect to the appropriateness of each of the five options as this was outside the scope of its study.

1.4 Elenchus Expert Report

11. The Elenchus expert report, filed on behalf of HQ Energy Marketing Inc. recommended that the ETS tariff be established pursuant to cost causality principles:

> **In our opinion, the applicability of the concept of allocating and recovering costs in a manner that reflects cost causality is not limited to electricity distributors; it is a core principle that guides the setting of just and reasonable rates in all applications of economic regulation, including the setting of the ETS tariff. Certainly, the cost causality principle is not the sole determinant of just and reasonable rates; however, significant deviations from this principle should result from an explicit determination of the appropriateness of any departure from pure cost causality. By definition, such departure creates cross-subsidies among customers, which need to be accounted for when balancing relevant rate making principles.**[3]

[3] EB-2012-0031, Hearing Transcript, Volume 2, February 2013, Page 50 (line 25) – Page 51 (line 11)

1.5 The Navigant Expert Report

12. The expert report of Navigant Economics ("Navigant"), filed on behalf of the Association of Power Producers of Ontario ("APPrO"), agreed with most of the analyses in the 2012 CRA Study but questioned several of its assumptions and findings. The Navigant report recommended the lowering of the ETS tariff, and in particular, the unilateral elimination of the ETS tariff.

1.6 IESO's Submission

13. On March 8, 2013, the IESO filed its submissions on the issue with the Board, with the stated purpose of assisting the Board in its determination by evaluating the ETS tariff options in light of the IESO's core functions of maintaining the reliability of the power system and efficiently administering the wholesale electricity market. In its submission, the IESO concluded that:

> **It is the IESO's view that none of the ETS tariff options will materially impact reliability, however, elimination of the tariff will best promote efficient operation of the wholesale market, specifically, efficiency in the generation, sale and transmission of electricity. The IESO has also evaluated the impact of the tariff options on consumers, which is an important consideration for the IESO and, of course, for the Board.**

2 PWU's Submissions

14. The PWU recognizes that both the initial ETS tariff of $1.00/MWh and the current ETS tariff of $2.00/MWh were set in the absence of any particular analytical underpinning. The 2012 CRA Study filed under this proceeding is by far the most comprehensive and one that required a significant amount of resources, and has provided the Board and other stakeholders with the analytical underpinning called for in the past.

15. The PWU also recognizes the rationale behind the Elenchus report's recommendation that the ETS tariff be established pursuant to cost causality principles.

16. In the PWU's view, there are two options for the Board:

i. If the Board is convinced that as a matter of principle a cost allocation study should be undertaken before establishing a new (and what the Elenchus report would describe as an 'arbitrary' ETS tariff), then the current tariff should continue until such a cost allocation study is completed, even if such a study would definitely entail significant cost.

ii. If the Board deems that establishing a new rate is of a pressing matter and that the 2012 CRA Study and the evidence before the Board is sufficient to make a determination, it is the PWU's view that the evidence before the Board overwhelmingly indicates that unilateral elimination of the ETS tariff ("unilateral elimination") is the best option as it will generate the most benefit to Ontario by increasing exports with minimal impact on transmission rates charged to domestic consumers.

17. The PWU recognizes that, in establishing rates, the Board must adhere to general ratemaking principles while having regard to the interests of stakeholders in fulfilling its often conflicting statutory objects including: the protection of the interests of consumers; the promotion of economic efficiency and cost effectiveness; and, the facilitation of a financially viable electricity industry.[4] The PWU's support for the unilateral elimination of the ETS tariff in Ontario, below, reflects the merits of this option in the context of the Board's statutory objects.

2.1 Protection of the Interests of Consumers

18. The most apparent result of eliminating the ETS tariff is the elimination of ETS revenues. This would have the effect of increasing transmission rates paid by

[4] Ontario Energy Board Act, 1998, SO 1998, c. 15, s. 1.

domestic consumers because ETS revenues would not be available to offset transmitters' revenue requirements that, in turn, reduce transmission rates charged to domestic consumers. In this respect, Hydro One's evidence[5] indicates that eliminating the ETS revenue of $27M embedded in 2013 transmission rates would add $27M to Hydro One's revenue requirement. This increase would, in turn, increase the existing approved Uniform Transmission Network charge paid by wholesale transmission customers of $3.63/kW/month by 3.0 per cent to $3.74/kW/month.

19. For a typical residential customer using 800 kWh per month, eliminating the ETS revenue would increase the current Retail Transmission rate of 1.216 cents/kWh or $10.55/month to 1.237 cents/kWh or $10.74/month: an increase of 19 cents/month. Similarly, the IESO's submission indicates low impacts on the transmission portion of a typical consumer's monthly bill of $0.23, $0.25, and $0.16, respectively for the three years modelled by CRA, 2013, 2015 and 2017. Furthermore, transmission rates are only one component of the consumer's total bill and the IESO indicates that the unilateral elimination option, by promoting the efficient use of generation, leads to the largest reduction in the commodity portion of the consumer's monthly bill of $0.14, $0.08, and $0.06, respectively for 2013, 2015 and 2017. As a result, the net bill impact of the unilateral elimination option is a monthly increase of $0.09, $0.17, and $ 0.10, respectively. Clearly these impacts are insignificant.

20. The PWU notes that the IESO's estimates do not include any allocation of intertie congestion revenue ("ICR") to consumers. If a portion of the ICR were to accrue to the benefit of consumers, the impacts on the consumer would be even lower. The PWU also notes that the EANC tariff of $5.80/MWh would only reduce the consumer's total monthly bill by $0.13, $0.31, and $0.14 whereas the other two-tier options' impact on total bill is rather insignificant compared to the status quo.

[5] EB-2012-0031, Exhibit J2.2, Page 1 of 1

21. It is, however, important that the Board consider the insignificant impact of the unilateral elimination option on the total monthly bill of the consumer in the context of the overall impact of this option on consumers, producers and the welfare of Ontarians as a whole. CRA's analysis of the impacts of the different options on efficiency, discussed below, indicates that the unilateral elimination option provides the most overall welfare. In fact, there are other benefits that flow to consumers even if they are not reflected on the consumer's electricity bill.

2.2 The Promotion of Economic Efficiency and Cost Effectiveness

22. The 2012 CRA Study measures the impact of each ETS tariff scenario on consumer surplus (change in costs borne by Ontario consumers), producer surplus (change in the net income of Ontario producers), and total surplus, i.e., Ontario welfare in general. In the PWU's view, measures of impacts on consumer surplus, producer surplus and total Ontario surplus are the best approximations of impacts on efficiency and cost effectiveness, which is one of the Board's statutory objects.

23. Table 1 below provides a summary of CRA's analysis on surplus changes. The unilateral elimination of the ETS tariff increases total surplus by $17.6 million in 2013 when Ontario has a significant surplus available for export. It is also important to note that while 2014 was not included in the model, CRA assumes that the surplus in 2014 will be more or less the same as in 2013. Therefore the unilateral elimination option would result in the largest total surplus based on the average for all the years modelled by CRA, and those in between. In contrast, the EANC scenario results in a reduction of total surplus by $22.8 million in 2013. If the Board were to accept the EANC scenario as the best option, the loss in total welfare in 2013 alone would be $40.4 million, taking into account the surplus that would be lost as a result of not choosing the unilateral elimination scenario instead. This is consistent with the IESO's submission that elimination of the tariff will best

promote efficient operation of the wholesale market, specifically, efficiency in the generation, sale and transmission of electricity.

Table 1: Summary of Surplus Changes of the various tariff options (C$2011/MWh)

ETS Tariff Option	Unilateral Elimination			Equivalent Average Network Charge			Two-Tier Option A			Two-Tier Option B		
	2013	**2015**	**2017**	**2013**	**2015**	**2017**	**2013**	**2015**	**2017**	**2013**	**2015**	**2017**
Δ Consumer Surplus	-$16.1	-$32.6	-$18.9	$24.1	$60.1	$23.5	$0.6	$9.6	$3.0	$10.3	$4.3	-$0.6
Δ Producer Surplus	$9.6	$22.2	$10.5	-$29.2	-$47.9	-$18.6	$4.9	$2.1	-$3.6	$2.9	$2.0	$0.1
Δ Intertie Congestion Revenue	$24.0	$10.1	$3.9	-$17.7	-$7.9	-$5.8	-$1.4	-$5.8	-$3.8	-$1.5	-$2.9	-$1.9
Δ Total Surplus	*$17.6*	*-$0.3*	*-$4.5*	*-$22.8*	*$4.2*	*-$1.0*	*$4.1*	*$5.9*	*-$4.4*	*$11.7*	*$3.4*	*-$2.5*

24. The PWU notes that at the hearing in this proceeding there were discussions around the issue of whether all or some of the producer surplus and the ICR revenue flow to consumers directly or indirectly and therefore whether the consumer surplus amounts calculated by CRA and summarized in Table 1 above accurately reflect reality. The PWU submits that the Board should consider this important issue when assessing the impacts of the various ETS scenarios on consumer surplus. As indicated earlier, the assessment of impact on consumers should not be limited to the evaluation of impacts on monthly electricity bills. The PWU agrees with Mr. Hamal’s, expert witness for APPrO, emphasis on the

importance of this issue in the context of Ontario Power Generation's ("OPG") generation ownership:

> **The second category is the producer surplus. Normally that is thought of as a separate category and it is a separate category here. It is just that in Ontario's unique structure it is a little bit different, in that it goes entirely to an entity, OPG, and their non-prescribed assets who -- you know, and they're provincially owned. At the long run, and I heard Dr. Shavel say this in his opening statement, that will go to consumers, either through, I would assume, possibly retiring stranded debt, possibly affecting rate cases for the regulated part of OPG in the future, possibly through the equity owner, the province and its taxpayers. It is not direct. It's not immediate. But as we look at non-zero-sum pie, we have an opportunity here to make things better for Ontario or not as good for Ontario. I think recognizing that that piece that goes to the producers as OPG does accrue in some way to consumers themselves. And it is not the same as if that was issued to –- on the Toronto Stock Exchange to dividends, and go we don't know where.**[6]

25. OPG is owned by the Ontario government. Consequently, some or all of the net income earned by OPG (i.e. producer surplus attributable to OPG's non-prescribed assets in the 2012 CRA Study) is transferred to the Ontario government. This transferred net income is used to reduce electricity costs borne by Ontario consumers through the retirement of Ontario Hydro's legacy debt and there is no question that Ontario's consumers are beneficiaries of OPG's net income.

26. With respect to Incremental Capital and Return ("CR"), the Board heard evidence that the increase in ICR resulting from the unilateral elimination of the ETS tariff, which would amount to $24 million in 2013 alone, should be considered as a benefit flowing to consumers. In the 2012 CRA Study, the ICR is considered as revenue that belongs to Ontario and hence part of the total Ontario Surplus; however, it is not recognized as part of the Consumer Surplus. Therefore, Consumer Surplus is understated by an amount equal to the ICR that flows to consumers. By the same token, the reduction in ICR of $18 million in 2013 that would result if the EANC scenario of $5.80/MWh were chosen is a loss to consumers. This means that the Consumer Surplus calculated by CRA for the

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EB-2012-0031, Hearing Transcript, Volume 2, February 25, 2013, page 35 (line 21) –page 3 6 (line 12)

EANC scenario is overstated. In this regard, the PWU notes that the IESO has begun making payments to consumers in response to feedback from the Market Surveillance Panel ("MSP") that the IESO Board of Directors should authorize the disbursement of the Transmission Rights Clearing Account balance that exceeds the Reserve Threshold to reduce the transmission charges payable by loads.[7] This was confirmed by Mr. Finkbeiner, IESO's expert witness, who stated that the IESO made a payment of $42 million in February 2013:

> **MR. FINKBEINER: I just wanted to point to one clarifying area with respect to this table and the congestion rents going back to or from consumers. I think Mr. Hamal noted the $42 million payout decision that was made last week.**
>
> **That is accurate, and the sum total of payouts from the IESO upon completion of that payout would be $99 million.**[8]

27. The PWU submits that, going forward, the unilateral elimination option will result in increased trade and export from Ontario that will increase auction revenues, which when paid to consumers by the IESO will more than offset the minimal increase in transmission rates that would result from the loss of ETS revenue.

28. In addition to the ICR, the PWU submits that the Board must consider that any decrease in export volume resulting from an increase in the ETS tariff will mean lower sales for OPG, and all else being equal (e.g. OPG's revenue requirement for its prescribed assets), that will result in an increase in OPG's payment amounts for its prescribed assets, and higher bill amounts for Ontario consumers.

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[7] MSP: Monitoring Report on the IESO-Administered Electricity markets for the Period November 2011-April 2012, dated January 2013.

EB-2012-0031, Hearing Transcript, Volume 2, February 25, Page 53, Lines 21-2

2.3 ETS Tariff and Surplus Baseload Generation

29. The 2012 CRA Study concludes that none of the tariff changes studied has a material impact on the volume of baseload exports during surplus baseload generation ("SBG") periods:

> **SBG did not vary across the ETS tariff scenarios. While the level of SBG was reduced with the greater export capacity, the ETS tariff itself did not affect the occurrence of SBG in our analysis. It appears that the differentials in baseload variable costs between Ontario sources and US baseload generation, which is mainly coal based, are so large that none of the proposed tariff changes would alter export decisions during SBG events.**[9]

30. The PWU finds CRA's conclusion that changes in the export tariff will have no effect on trade during SBG conditions difficult to accept. While the Study minimizes the significance of the ETS tariff on exports during SBG conditions, it does not explain why historically Ontario was not able to export more power during SBG conditions and why traders do not take the opportunity to export to take advantage of the price differentials between Ontario and other jurisdictions. One reason considered by CRA as making the alleviation of SBG conditions in Ontario difficult is limited intertie capacity:

> **However, intertie capacity and a series of operational considerations place a practical limit on the capacity of intertie transactions to alleviate SBG conditions.**[10]

31. The intertie capacity argument, however, does not seem to hold given the IESO's undertaking response[11] on the percentage of time there was intertie congestion that would have limited exports during SBG hours:

> **Surplus baseload generation (SBG) is defined as baseload generation that is in excess of Ontario demand and exports. In 2012, there were 435 hours of SBG. There were no instances during these SBG hours when all the interties were congested at the same time. There were 260 hours (or approximately 60% of the time) during SBG hours when no interties were**

[9] EB-2012-0031, Exhibit H1-5-2, Appendix B, Page 31 of 102

[10] EB-2012-0031, Exhibit H1-5-2, Appendix B, Page 8 of 102

[11] EB-2012-0031, Exhibit J2.1

congested; there were 175 hours (approximately 40% of the time) during SBG hours when at least one intertie was congested.

32. Moreover, the CRA's expert witnesses were not able to provide explanation for the lack of trade during SBG conditions:

> **Dr. Shavel: When we specialize it to the SBG hours, we see these seemingly fairly large opportunities that are not being exploited. We don't understand why. We've thought about it and we have talked to the IESO. We don't understand it, why. It may have something to do with markets' coordination, timing. It probably has a lot to do with that, but it doesn't seem to be anywhere in the magnitude of lowering the tariff by $2 will make this seeming problem go away.** [12]
>
> **DR. BAZILIAUSKAS: The evidence that I was just discussing with, you know, trade during SBG periods, you know, the fact is that in the real world during SBG periods, there's, you know, according to this, a ten to $20 differential between export -- prices in export markets and prices in Ontario, including all trading costs.**
>
> **What does that mean? That means that there are significant trading opportunities, up to $20 a megawatt-hour, that are not being exploited. And what Mr. Hamal would have you believe, that traders do not exploit trading opportunities at $20 per megawatt-hour, but they will if all of a sudden the differential goes down to $18.**
>
> **That doesn't seem plausible to me. There is other stuff going on, and Mr. Finkbeiner and Ira have talked about these things that prevent the exploitation of these profit opportunities during SBG periods; right? And you can see that from the fact that in the real world there are almost always significant price differentials during SBG periods, and yet the exports during those periods are significantly below technical capacities. There's something else going on here.**
>
> **There is some non-price barriers to exploiting these trading opportunities, and we just find it implausible that a relatively small change in the price, a cost to a trader, is going to have a significant impact on trading during those periods. And that's sort of the bottom line.** [13]

33. In other words, the CRA experts say that the explanation must lie in some non-price or non-tariff factors and not in the level of the ETS tariff. The problem is that the 2012 CRA Study does not tell us what those non-tariff factors are while it

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[12] EB-2012-0031, Hearing Transcript, Volume 3, February 26, 2013, Page 45

[13] EB-2012-0031, Hearing Transcript, Volume 3, February 26, 2013, Page 47

out-rightly rejects the ETS tariff as a factor stating that its impact on trading is insignificant.

34. As Cliff Hamal, the expert witness for APPrO, indicates, the CRA analysis is problematic because a change in tariff should change the incentive for exports and absent transmission constraint, a change in exports should be expected. Mr. Hamal notes:

> **The CRA analysis does not produce this result because the transmission lines are always constrained during SBG situations — no change in the tariff could increase exports. This is not reasonable and is not consistent with historical SBG conditions. This result occurs in the analysis because the analysis does not adequately model real-world operations. The analysis assumes efficient outcomes with no uncertainties, unreasonable price differences, and other factors such that the transmission limits are always constraining exports whenever SBG occurs. This is not true.** [14]

35. Similarly, the CRA analysis does not address how the uncertainties about IESO actions in managing SBG impact trading behaviour and how lowering the ETS tariff can mitigate the lack of trading during SBG conditions. At the hearing, the Board heard that traders lack information about when SBG occurs and what actions (e.g., nuclear outage and water spill) the IESO might take to address SBG. According to Mr. Hamal, this has significant effects:

> **And it has significant effects. I'm told that prices can be $100 in Ontario during an SBG event. And the reason is because the -- some of the actions that need to be taken lead to substantial reductions in output, because there are big, lumpy changes like shutting down a nuclear or spilling a lot of wind or spilling water for multiple hours. And you end up clearing on fossil units or something else in the marketplace.** [15]

36. The PWU submits that reducing or eliminating the ETS tariff would allow more trade which in turn would address SBG situations and hence reduce the need for the IESO to manage SBG in the inefficient manner it does currently. It would also reduce the probability of using more expensive fossil-fueled generation to

[14] Joint Experts Written Statement, EB-2012- 0031 (Filed: January 16, 2013), Page 17

[15] EB-2012-0031, Hearing Transcript, Volume 3, Page 49, Lines 19-26

replace supply lost due to the curtailment of nuclear generation and the volatile price reaction thereof and uncertainty for traders.

37. The PWU submits that the Board should evaluate the significance of the problem of SBG and the importance of increasing export from Ontario in the following context. The Province's Long Term Energy Plan calls for 10,700 MW of non-hydro renewable generation capacity by 2017, and the FIT Review has accelerated that target date to 2015. Moreover, as the 2012 CRA Study indicates the marginal cost of Ontario baseload production (nuclear, non-dispatchable hydro, wind, solar) is well below the marginal cost of coal-fired baseload generation in US markets. As a result, subject to transmission availability in Ontario and grid conditions in the receiving market, there is usually a market for Ontario baseload generation in excess of output required to meet Ontario's domestic needs.[16] Surely, the elimination of the ETS tariff will help Ontario utilize the export opportunities provided by these realities. Adopting a higher tariff such as the EANC scenario of $5.80/MWh would make export transactions more expensive, significantly reduce trading opportunities, deprive Ontario of substantial export potential and revenue, and worsen SBG situations.

3 CONCLUSION

38. The PWU recognizes that the appropriate level of the ETS tariff is affected by a number of factors including the level of economic activity in Ontario (which affects domestic demand for electricity), Ontario's policy with respect to the energy supply mix, the uncertainty about Ontario's commitment to implement the Western Climate Initiative, and the structure of generation ownership in Ontario. These

[16] EB-2012-0031, Exhibit H1-5-2, Appendix B, Page 8 of 102

factors, among other factors, are dynamic in nature and as a result, an ETS tariff deemed appropriate today may not be so in the future. Moreover, establishing the ETS tariff in consideration of a cost allocation study and cost causality principles may be required at some point in the future. Regardless, the PWU submits that the unilateral elimination of the ETS tariff best fits Ontario's present (and short-term) needs and circumstances as established in the foregoing discussions. The PWU, therefore, recommends that the Board adopt the unilateral elimination of the ETS tariff until a different set of future circumstances warrant reconsideration.

All of which is respectfully submitted