March 22, 2013

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Dear Ms. Walli:

HydroOne Networks Inc. – 2013-2014 Rates
EB-2012-0031

On behalf of the Association of Power Producers of Ontario ("APPrO"), please find enclosed APPrO's final Argument in the above-noted matter.

Yours very truly,

Original signed by

Richard J. King
Partner

RJK/mnm

Enclosure

Cop(y/ies) to: All Parties to EB-2012-0031

EB-2012-0031

ONTARIO ENERGY BOARD

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.

SUBMISSIONS OF ASSOCIATION OF POWER PRODUCERS OF ONTARIO

EXPORT TRANSMISSION SERVICE ("ETS") RATE

March 22, 2013

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A. INTRODUCTION

1. The Association of Power Producers of Ontario ("APPrO") supports the elimination of the ETS tariff. It is APPrO's view that this position is overwhelmingly supported by the evidence in this proceeding, which clearly demonstrates that:

- Ontario consumers benefit from a reduction of the tariff from the current $2/MWh to zero.
- As a whole, the province benefits from a reduction of the tariff from the current $2/MWh to zero.
- Eliminating the ETS tariff would bring the all-in export costs payable by Ontario exporters more in line with the costs payable by exporters in neighbouring jurisdictions.
- The fixed ETS tariff options (including unilateral elimination) are easier to administer than the two-tiered tariff options.
- Eliminating the ETS tariff and bringing the all-in export costs in line with other jurisdictions is fair to Ontario domestic load.
- Eliminating the ETS tariff will best promote the efficient operation of the wholesale market, specifically, efficiency in the generation, sale and transmission of electricity, and efficiencies and cost savings in managing surplus baseload generation ("SBG").

B. BACKGROUND TO THIS PROCEEDING

2. This proceeding involves the setting of a rate pursuant to section 78 of the *Ontario Energy Board Act, 1998*. In setting that rate, the Ontario Energy Board ("OEB" or "Board") has broad discretion, and is only constrained by the statutory imperative that the resultant rate be just and reasonable. In setting utility rates for power transmission and distribution, the Board has historically used a cost-of-service methodology, although it is not bound to do so.

3. The ETS rate is unique – it is only payable by customers who export electricity out of Ontario. These are either electricity generators with assets in Ontario, or power traders (who may or may not own physical assets in Ontario).

4. In addition, the level of the ETS tariff can have broader impacts on the electricity markets in Ontario, specifically:

- Increasing the ETS tariff will reduce the volume of exports, and vice versa.
- Increasing the ETS tariff can adversely impact SBG, making it more costly for the IESO to manage SBG, and vice versa.
- Changing the ETS tariff can impact the Ontario commodity price for power, and transmission rates payable by other customers.

5. As a result of these broader implications, at the end of the last transmission rate proceeding where the ETS was considered (EB-2010-0002), the Board directed the IESO to undertake a comprehensive ETS tariff study to identify a range of proposed ETS rates, and the pros and cons associated with each. The IESO did this.

6. The resultant report (the "CRA Study") prepared by Charles River Associates ("CRA") considered four tariff options. The CRA Study provided both a quantitative and qualitative analysis of the options, including:

- quantifying the costs and benefits to Ontario consumers associated with an ETS tariff change;
- quantifying the costs and benefits to Ontario producers associated with an ETS tariff change;
- quantifying the costs and benefits to Ontario as a whole associated with an ETS tariff change;
- comparing the ETS tariff options and structures with those in jurisdictions adjacent to Ontario;
- evaluating the simplicity of administering each of the ETS tariff options;

- assessing the fairness of the ETS tariff options (specifically, whether exporters paying the ETS are appropriately sharing in the transmission infrastructure costs); and,

- evaluating the implications of each ETS tariff option on Ontario market efficiency.

7. Given the unique characteristics of the ETS tariff, and the potential implications associated with any resultant change in export levels, APPrO believes that the factors noted above which were addressed in the CRA Study are the appropriate factors for the Board to consider in setting an ETS rate at a just and reasonable level.

8. Others (in particular Hydro-Quebec Energy Marketing Inc. ("HQEM")) will argue that cost causality considerations should be the basis for the Board's determination of an appropriate ETS tariff, and the quantitative and qualitative criteria used in the CRA Study should be of lesser importance. APPrO disagrees, for the following reasons:

   - As noted above, there are broad implications of ETS tariff changes and these broader issues are appropriately part of the Board's consideration of the appropriate ETS tariff level. The quantitative and qualitative criteria in the CRA Study address these broader considerations.

   - In HONI's previous transmission rate proceeding (EB-2010-0002), CRA produced an ETS tariff report that evaluated quantitative criteria similar to the CRA Study in this proceeding. The Board did not take issue with those criteria, but directed a more comprehensive study be undertaken with stakeholder input. This was done.

   - The CRA Study does take into account cost considerations in its qualitative assessment of the "fairness" of the various ETS options.

   - Shifting the analytical framework for assessing the ETS tariff level to one based on cost allocation would be time-consuming and expensive for an issue (the ETS tariff) that is very small in relation to overall transmission rates in Ontario.

   - Moreover, shifting to a cost causality assessment would shift responsibility for the ETS rate from the IESO to HONI. In APPrO's view, by giving the IESO responsibility for directing the CRA Study, the Board has recognized that the IESO is a more appropriate entity than HONI to assess the ETS tariff level (again, presumably on the basis that the ETS tariff cannot be set on the basis of cost causality alone, but must include broader considerations).

- Thus, APPrO believes that the quantitative and qualitative criteria utilized in the CRA Study are the appropriate criteria for the Board to use in evaluating the ETS tariff level. That does not mean that APPrO believes the analysis in the CRA Study is beyond scrutiny.

9. On that basis, APPrO engaged its own expert (Navigant) to review the CRA Study – and in particular, the quantitative analysis component of the CRA Study. Navigant produced a report (the "Navigant Review") that identified a number of important shortcomings with the CRA Study. Some of these shortcomings are material.

10. In addition, because the CRA Study evaluates the implications of ETS tariff changes on export volumes, APPrO undertook an analysis of the CRA Study through the lens of individuals engaged in "real world" electricity trading. To that end, APPrO prepared and filed the evidence of Marc-André Laurin (the "Laurin Evidence").

11. On the basis of the Navigant Review and Laurin Evidence, it is APPrO's view that in evaluating the CRA Study's quantitative data:

- the benefits to Ontario consumers associated with the elimination of the ETS tariff are even greater than those quantified in the CRA Study;
- the CRA Study underestimates the reduction in export volumes (and ETS revenues) that would result from an increase in the ETS tariff to the Equivalent Average Network Charge ("EANC");
- the Board should rely more heavily on the 2013 data (as opposed to 2015 or 2017) because near-term inputs into the CRA model are more reliable than later inputs;
- for the 2015 and 2017 data generated by CRA, the Board should assume that Ontario has not joined the Western Climate Initiative ("WCI"); and,
- the ability of exports to reduce the incidences of SBG, and the costs savings that would result from reduced SBG events, are understated in the CRA Study.

12. APPrO believes that based on the totality of the evidence in this proceeding (the CRA Study, the Navigant Review and the Laurin Evidence), the elimination of the ETS tariff is the most appropriate of the rate options studied, and superior to the status quo of $2/MWh.

13. The remainder of APPrO's argument will address the key quantitative and qualitative factors identified in the CRA Study and discussed in the Navigant Review and Laurin Evidence.

C. BENEFIT TO ONTARIO CONSUMERS

(a) Introduction

14. One of the key quantitative criteria assessed in the CRA Study is the impact of an ETS tariff change on the all-in power costs to Ontario consumers . This is the ∆ Consumer Surplus calculation shown in Tables 7 through 10 of the CRA study.

15. The ∆ Consumer Surplus figures in Tables 7 to 10 must be further analyzed in order to provide a clear picture of the true rate impact to Ontario consumers. Specifically, the ∆ Consumer Surplus figures in Tables 7 through 10 need to be adjusted for the following:

- all or a significant portion of the ∆ Intertie Congestion Revenue belongs to Ontario Consumers;
- the ETS revenues generated in the EANC (Equivalent Average Network Change) are too high;
- the figures in Tables 7 through 10 should be adjusted for the non-WCI scenario; and,
- exporters are electricity ratepayers, and the Board must consider the rate impacts of any ETS tariff change on these customers.

(b) Intertie Congestion Revenue Belongs to Ontario Consumers

16. Whenever an intertie connected to Ontario is export congested, the price at the intertie zone is higher than the internal Ontario price. Exporters end up paying the IESO a higher price to export power than what the IESO pays Ontario generators to supply the power. This price difference between the intertie zone and Ontario, multiplied by the export quantity scheduled over the constrained intertie, is the intertie congestion rent payable by exporters that is collected by the IESO (before being distributed to electricity customers).

CRA Study, p. 24

17. The Intertie Congestion Revenue in the CRA model is a proxy for intertie congestion rent.

Hearing Transcript, Vol. 2, p. 69 (line 18) top. 72 (line 16)

18. If the ETS tariff is changed (to one of the ETS tariff options) there will be more or less intertie congestion rent payable by exporters. If the ETS tariff is lowered and exports increase, both the frequency of export congestion and the price difference between the intertie zone and Ontario would also increase, meaning more intertie congestion rent payable by exporters. The question is – Who gets this intertie congestion rent (modelled as Intertie Congestion Revenue)?

19. CRA did not add the Δ Intertie Congestion Revenue to the Δ Consumer Surplus because the CRA experts were not confident that all of this money was going to Ontario consumers. The concerns appeared to be based on the fact that: (a) the IESO had not regularly paid out the surplus intertie congestion rent to electricity consumers; (b) the IESO had used some of the excess intertie congestion rents to fund shortfalls in the transmission rights market (i.e., payments to transmission rights holders); and (c) CRA had not done a statistical analysis of whether trader profit comprised part of the Intertie Congestion Revenues. All of these uncertainties should not detract from the fact that Δ Intertie Congestion Revenue is a very large amount of money, and not allocating it to Ontario Consumers, Ontario Producers or some other entity, distorts the analysis.

20. However, the evidence in this proceeding clearly indicates that all or a significant portion of these funds must be added to the Δ Consumer Surplus amounts:

- First, the CRA experts testified that although they had not completed a detailed analysis, they understood that "the [intertie congestion rent] part [of Intertie Congestion Revenue], which goes to the IESO, is significant, and it might be virtually all of the [Intertie Congestion Revenue]…" Mr. Hamal (Navigant) testified that the 100% allocation was the only assumption consistent with the rest of the analysis.

  Hearing Transcript, Vol. 2, p. 70, lines 2-7
  Hearing Transcript, Vol. 2, p. 38, line 10 to p. 39 line 3

- Second, the IESO made a deliberate decision to auction increased levels of transmission rights (which might need to be partially funded via intertie congestion rents) for policy reasons related to reliability and competition. Specifically, the IESO in 2003 determined that the benefits of using intertie congestion rents to fund increased transmission rights (specifically, more trading, which for imports, leads to more competition) likely exceeded the benefits of any discount that Ontario consumers would otherwise receive in energy.

  IESO Undertaking J2.3

- Third, in January 2013, the OEB Chair recommended that the IESO: (a) limit the number of transmission rights auctioned to a level where the intertie congestion rent collected is approximately sufficient to cover the payouts to transmission rights holders; (b) distribute funds currently in the Transmission Rights Clearing Account that is above the reserve threshold; and (c) such distributions from the TR Clearing Account be done annually.

- Fourth, in response to (b) in the bullet immediately above, the IESO in mid-February 2013 approved paying out $42 million of intertie congestion rent to Ontario consumers. Prior to this amount, there had been a similar payout of $57 million to Ontario consumers.

  Hearing Transcript, Vol. 2, p. 53 (lines 23 to 28)

21. Given this, it is wholly inappropriate to leave the Intertie Congestion Revenues unallocated (as the CRA Study does in the assessment of the ETS tariff options). Based on the evidence, it is only appropriate that these funds be allocated in their entirety to Ontario consumers.

(c) ETS Revenues in EANC Scenario are Too High

22. APPrO's view, based on the evidence of its witness Mr. Laurin, is that the CRA Study over-estimates the ETS revenues that would be generated if the ETS tariff is increased to $5.80/MWh. In doing so, the Δ Consumer Surplus is over-estimated by CRA in the EANC scenario.

23. The CRA Study assumes that if the ETS tariff is increased from the status quo of $2/MWh to $5.80/MWh, there would only be a 24% reduction in the volume of exports. This would, according to the CRA model, generate $50.8 million of ETS revenue payable by exporters that would lower the transmission charges payable by domestic Ontario consumers. This is shown in Table 8 of the CRA study, and is the sole reason why consumers look like they are $24.1 million better off in terms of all-in power costs in 2013.

24. However, if one looks at the real trader margins provided in the Table in Mr. Laurin's evidence, it is clear that if the ETS is increased from $2 to $5.80, forward margins in 2013 go from averaging approximately $3.50/MWh to -$0.20/MWh. It is difficult to believe that these margin differentials would lead to only a 24% reduction in exports.

25. And the consequences of underestimating the reduction in exports associated with an ETS tariff hike is significant in monetary terms. As noted in Mr. Hamal's testimony, if the reduction in export volumes were greater (around 64%, instead of the CRA estimate of 24%), the additional $50.8 million in ETS revenue (which shows as benefitting Ontario consumers in 2013) would be entirely eliminated. In addition, the uplift collected from exporters would also fall from the -$16.6 million to -$45.8 million.

Hearing Transcript, Vol. 2, p. 73 (lines 1 to 19)

26. Thus, if we assume a 64% export volume reduction with a higher tariff, the total impact would mean that the Δ Consumer Surplus in 2013 would go from a positive $24.1 million to a loss of more than $55.9 million. The CRA calculation showing an increase in Consumer Surplus from raising the ETS tariff is highly sensitive to assumptions about how traders will respond to changes in costs and risk that result from a change in the ETS tariff.

27. This massive swing in Consumer Surplus is entirely attributable to assuming that export volumes drop 64% instead of the 24% in the CRA model. Based on the trader margin evidence of Mr. Laurin, this is an entirely plausible assumption. In fact, Mr. Laurin's evidence would suggest (based on negative trader margins) that there is a real risk of export volumes falling by more than 64%.

28. For that reason, APPrO believes the ETS revenues and Δ Consumer Surplus are over-estimated in the EANC scenario in the CRA Study.

(d) Non-WCI Scenario Should Be Used As Base Case

29. In addition, APPrO submits that the non-WCI (Western Climate Initiative) scenario should be used in assessing the CRA Study results due to the uncertainty of Ontario adopting a carbon pricing scheme before 2017.

30. The final Appendix to the CRA Study notes that CRA's initial quantitative work assumed that Ontario would participate in the WCI before 2015. As a result, the CRA model results for 2015 and 2017 (reflected in Tables 7 through 10 in the CRA Study) have assumed Ontario would institute carbon pricing for fossil-based generation and import price adjustments to reflect the average carbon content of imports into Ontario from non-WCI markets.

31. During the stakeholder process, stakeholders asked that the CRA model be re-run on the basis of Ontario not joining the WCI. The IESO's view and expert opinion in this proceeding is that the non-WCI scenario is the more likely scenario:

- "A key assumption [in 2015 in the CRA Study] is the Western Climate Initiative will be adopted in Ontario. … I don't believe that is a reasonable base case, given what we know today about the Western Climate Initiative. … The Western Climate Initiative, in general, is in retreat. California is the only state going forward in the United States. … There are Canadian provinces, Quebec, British Columbia and Ontario, that are affiliated with it. As far as I know, no one is moving forward to adopt their specific carbon trading mechanism itself."

  Hearing Transcript, Vol. 2, p. 40 (line 11) to p. 41 (line 6)

- "It is also assumed that the non-WCI scenario is the appropriate reference case due to the uncertainty of Ontario adopting a carbon pricing scheme during the study years."

  IESO Submissions, March 8, 2013, p. 7 (footnote 20)

32. When the non-WCI scenario is used as the reference case for unilateral tariff elimination, the Total Ontario Surplus in 2015 goes from a -$0.3 million to a +$4 million, and the Total Ontario Surplus in 2017 goes from -$4.5 million to +$6.1 million.

33. The opposite happens in the case of an increase in the ETS tariff to $5.80. The Total Ontario Surplus in 2015 goes from a +$4.2 million to -$0.6 million, and the Total Ontario Surplus in 2017 goes from -$1.0 million to -$10.5 million.

Join Witness Statement, pp. 12 and 13

(e) Exporters are Ratepayers

34. At the hearing, there was much discussion of how the costs and revenues generated by a change in the existing ETS tariff would impact "Ontario consumers". That is what the ∆ Consumer Surplus figures in the CRA Study are trying to get at.

35. However, what the CRA Study does not do is recognize that exporters are also ratepayers. There are a few implications when you take this fact into account.

36. First, the ETS rate is only paid by exporters. If the ETS tariff were increased from the status quo of $2/MWh to the EANC tariff option of $5.80/MWh, that would amount to a rate increase of nearly 300% for export customers. By any definition, that amounts to rate shock, and such rate cannot be viewed as just and reasonable.

37. Second, imposing such a rate increase on exporters provides no benefits to non-exporter ratepayers in Ontario. Massively increasing the ETS tariff to $5.80/MWh would leave not only export customers worse off but internal Ontario customers also worse off.

38. At most, even if one were to assume that no Intertie Congestion Revenue went to Ontario consumers (which as the recent $42 million payment indicates cannot be the case), and the volume of exports dropped by the very modest 24% level shown in the CRA model, the impact of nearly tripling the ETS rate payable by one class of customers (exporters) would provide a $0.19 monthly reduction in Ontario consumer bills. The provision of this benefit to consumers would come from tripling the rate chargeable to export class customers. Such a rate impact cannot be justified.

39. Third, there is no good reason to separate out exporters from Class A and Class B consumers. The CRA model incorporates Class A and Class B consumers as "Ontario Consumers" for the purposes of calculating the ∆ Consumer Surplus, without any rationale. Indeed, including "ETS Revenue" in the ∆ Consumer Surplus calculation really just shows the amount of money that would be transferred from one class of customers (exporters) to other classes of customers (specifically, Class A and B customers). The IESO appears to recognize (in their submission) that this transfer between customer classes should not be considered Consumer Surplus. As a result, the IESO eliminates

the ETS Revenue from the calculation of Δ Consumer Surplus, as shown in Table 1 (on page 7) of the IESO's March 8th submission:

ETS Tariff Option	Unilateral Elimination			Equivalent Average Network Charge			Two-Tier Option A			Tow-Tier Option B		
Year	**2013**	**2015**	**2017**	**2013**	**2015**	**2017**	**2013**	**2015**	**2017**	**2013**	**2015**	**2017**
Consumer Surplus Δ	25.9	14.9	10.2	-26.6	-26.7	-8.5	4.1	3.7	-1.3	7.2	3.1	3.1
Producer Surplus Δ	9.6	16.6	8.0	-29.2	-44.8	-13.6	4.9	5.3	5.1	2.9	3.9	3.9
Intertie Cong. Revenue Δ	24.0	18.6	16.5	-17.7	-13.0	-21.8	-1.4	-10.8	-12.5	-1.5	-5.4	-6.1
Total Surplus Δ	59.5	50.1	34.7	-73.6	-84.4	-43.9	7.6	-1.8	-8.7	8.6	1.6	0.9

D. BENEFIT TO ONTARIO PRODUCERS

40. In addition to calculating the Δ Consumer Surplus and Δ Intertie Congestion Revenue, the CRA model also calculated the Δ Producer Surplus. This, according to the CRA Study, is the change in revenues earned by "Ontario generators" that would result from an ETS tariff change. A positive Δ Producer Surplus figure would mean that Ontario generators would earn more revenue as a result of the ETS tariff change.

41. There was no disagreement among any of the experts or parties at the oral hearing that all of this Δ Producer Surplus accrues to only one generator in Ontario – Ontario Power Generation Inc. (OPG), which is wholly-owned by the province of Ontario.

42. This is important because it gives credence to CRA's approach of adding the Δ Consumer Surplus, Δ Producer Surplus and Δ Intertie Congestion Revenue to calculate an overall Ontario Surplus. By going entirely to OPG (and not any other independent power producer), a positive change to the Δ Producer Surplus is clearly a benefit to Ontario.

43. The fact that all of the Producer Surplus is allocated to OPG also raises two further considerations:

- First, it may be prudent to view some or all of the Producer Surplus as accruing to Ontario consumers. The fact is that Ontario electricity ratepayers and Ontario taxpayers

are largely the same group of people. Any positive Producer Surplus resulting from a change in the ETS tariff will accrue to the benefit of OPG and ultimately its shareholder the province. Indirectly then, the beneficiaries of additional Producer Surplus revenue are the citizens of Ontario. APPrO acknowledges it is not as direct or transparent as a positive change in the Consumer Surplus. Intervenors will argue that the Board still regulates provincially-owned entities – that, for example, Hydro One Networks Inc. (HONI) cannot simply charge what it wishes on the theory that any windfall of HONI revenue is ultimately the province's money. But that argument misses the point. What we are talking about here is not about charging customers without regulatory oversight, but how to assess the Δ Producer Surplus figures generated by the CRA model, and the fact that all positive changes in Producer Surplus ultimately accrue to a provincially-owned entity is important.

- At a minimum, it makes clear that in setting an appropriate ETS tariff, the analysis is not a simple "producers win, consumers lose" and vice versa type of analysis. The analysis has to be more sophisticated than that, and even the CRA Study recognizes this point: "*While we have calculated surplus for each group within the economy, it should be recognized that the allocation of that surplus is based on assumptions that are somewhat subjective, particularly in a system with a high degree of government ownership. By way of example, we have treated net income earned by OPG on its non-prescribed hydro operations as producer surplus, but that revenue flows to OPG's bottom line, which in turn affects Ontario's fiscal balance to the benefit of Ontario taxpayers/consumers.*"

  CRA Study, p. 23.

E. BENEFIT TO ONTARIO AS A WHOLE

44. The CRA Study calculates the Δ Total Ontario Surplus for the various ETS tariff scenarios as the:

Δ Consumer Surplus
+ Δ Producer Surplus
+ Δ Intertie Congestion Revenue

Δ Total Ontario Surplus

45. Given that the Δ Intertie Congestion Revenue should be viewed as accruing to Ontario consumers, and that the Δ Producer Surplus also accrues ultimately to Ontario taxpayers in some manner, APPrO submits that the Board should give most weight to the Total

Ontario Surplus calculation (as compared to the surplus calculations that make up its component parts).

46. When the Intertie Congestion Revenue amounts are appropriately allocated to Ontario Consumers, the non-WCI scenario is used as the base case, and more realistic export figures are used in the EANC scenario, the surplus calculations are as follows:

Surplus Component	**2013**		**2015**		**2017**	
	CRA	No Change In	CRA	No Change In	CRA	No Change In
Scenario	Basecase	ETS Revenue	No WCI	ETS Revenue	No WCI	ETS Revenue
Estimated Export Reductions	23.8%	65.5%	3.1%	65.5%	25.5%	65.5%
(Class A & Class B)						
Δ Global Adjustment	-$313.6		-$489.4		-$110.5	
Δ Market Payments	$303.5		$465.1		$114.1	
Δ GA + Market	-$10.1	<-$10.1	-$24.3	<-24.3	$3.6	<$3.6
Δ ETS Revenue	$50.8	$0.0	$83.8	$0.0	$33.3	$0.0
Δ Uplift	-$16.6	-$45.8	-$2.3	-$47.9	-$12.1	-$31.1
Δ Consumer Surplus	**$24.1**	**<-$55.9**	**$57.1**	**<-$72.2**	**$24.9**	**<-$27.5**
Δ Global Adjustment	$313.6		$489.4		$110.5	
Δ Market Revenues	-$484.2		-$556.0		-$255.5	
Δ Total Revenue	-$170.6		-$66.6		-$145.0	
Δ Production Costs	$141.4		$21.8		$131.4	
Δ Producer Surplus	**-$29.2**	**<-$29.2**	**-$44.8**	**<-$44.8**	**-$13.6**	**<-$13.6**
Δ Intertie Congestion Revenue	**-$17.7**	**<-$17.7**	**-$13.0**	**<-$13.0**	**-$21.8**	**<-$21.8**
Δ Total Surplus	**-$22.8**	**<-$102.8**	**-$0.6**	**<-$130.0**	**-$10.5**	**<-$62.9**

47. Thus, the unilateral tariff elimination option is the preferred tariff option. It provides the greatest overall benefit to Ontario.

F. CONSISTENCY WITH NEIGHBOURING JURISDICTIONS

48. APPrO submits that export costs payable by Ontario power exporters should be consistent with export costs in neighbouring jurisdictions for similar service.

49. With the ETS rate (a component of the total costs) at the status quo level of $2/MWh, Ontario's export transmission costs are that the high end of the range.

50. The CRA Study included the following chart containing comparative cost information:

Transmission Costs for 2011 Calibration Modelling and Status Quo Scenario (C$2011/MWh)

From	To	On-Peak / Off-Peak / All	Export Charge	Uplift / Administrative	All-In Costs for 2011
Ontario	New York	On-Peak	$2.00	$3.33	**$5.33**
	New York	Off-Peak	$2.00	$3.33	**$5.33**
	Quebec	On-Peak	$2.00	$3.33	**$5.33**
	Quebec	Off-Peak	$2.00	$3.33	**$5.33**
	MISO	On-Peak	$2.00	$3.33	**$5.33**
	MISO	Off-Peak	$2.00	$3.33	**$5.33**
New York	Ontario	All	$4.05	$1.98	**$6.03**
	PJM	All	$5.48	$1.98	**$7.45**
	Quebec	All	$2.91	$1.98	**$4.89**
	NEISO	All	$0.00	$1.98	**$1.98**
MISO	Ontario	On-Peak	$6.99	$1.42	**$8.41**
	Ontario	Off-Peak	$3.32	$0.78	**$4.10**
	PJM	On-Peak	$0.00	$1.42	**$1.42**
	PJM	Off-Peak	$0.00	$0.78	**$0.78**
PJM	MISO	All	$0.00	$2.47	**$2.47**
	New York	On-Peak	$4.44	$2.47	**$6.91**
	New York	Off-Peak	$2.11	$2.47	**$4.58**
NEISO	New York	All	$0.00	$0.37	**$0.37**
	Quebec	All	$7.13	$0.37	**$7.50**
Quebec	Ontario	All	$8.24	$0.27	**$8.53**
	New York	All	$8.24	$0.29	**$8.53**
	NEISO	All	$8.24	$0.29	**$8.53**

51. Two points should be made about this table.

- First, although the ETS tariff in Ontario is comparatively low when compared to the ETS tariff in other jurisdictions, CRA has appropriately included other non-commodity charges that exporters must pay in order to export power. Because the rate structure in each jurisdiction is different, including all non-commodity costs is the only means to obtain a true “apples-to-apples” comparison of the costs export customers must pay to export electricity (leaving aside the

commodity). As noted in the table, Ontario imposes the highest Uplift/Administrative Costs on exporters. Taken together, the all-in non-commodity costs to export power out of Ontario is at the high end of the range.

- Second, although the table shows that transmission service in Quebec has the highest all-in transmission costs, the transmission service in Quebec is materially different (as noted in the testimony of Mr. Laurin). In Quebec, the transmission reservation charge provides the customer with a physical transmission capacity reservation. In other words, that purchased transmission capacity is guaranteed and available for use by the exporter paying the transmission reservation charge. In Ontario, there is no ability to purchase similar physical capacity. Although exporters would pay the all-in costs if their bid to export was successful, the payment of a $5.33/MWh all-in cost does not guarantee export capacity in the same way that paying the $8.53/MWh in Quebec guarantees firm transmission capacity. The Quebec service is different from that provided in Ontario. Power exported via a firm transmission service such as that in Quebec have the same level of priority as native load. Further, Quebec does build transmission for export service. When Quebec is removed from the table, the all-in costs in Ontario, New York, MISO, PJM and NEISO range from $0.37/MWh to $8.41/MWh. Ontario's all-in costs are at the high-end of this range.

52. If the ETS tariff were to move to $5.80/MWh, the all-in export costs out of Ontario would be over $9/MWh – the highest of any neighbouring jurisdictions (including Quebec).

53. Considering only the factor of consistency with export costs in neighbouring jurisdictions, the ETS tariff should be lowered. Even if eliminated in its entirety, it would still be in the middle of the range at $3.33/MWh.

G. ADMINISTRATIVE SIMPLICITY OF ETS TARIFF OPTIONS

54. The IESO has indicated that the two fixed ETS tariff rates studied ($0/MWh or $5.80/MWh) do not have implementation challenges, but that the two-tiered ETS tariff options could not be implemented for approximately three months.

55. In APPrO's view, the two-tiered ETS tariff options creates two more problematic issues:

- As noted in the testimony of Marc-Andre Laurin, the on-peak tariff in each of the two-tiered ETS tariff options significantly reduces trader margin. For Two-Tiered Scneario A, the monthly average on-peak margin goes from $3.36/MWh to a

monthly negative amount for all but one month. For Two-Tiered Scenario B, the monthly average on-peak margin goes from $3.36/MWh to $1.86/MWh. In those scenarios, traders do not, as Mr. Laurin points out, choose to trade in off-peak hours where margins are better, and forego trading in on-peak hours. Rather, traders look at the opportunities to trade in a market on a more holistic basis, and if margins during on-peak trading hours are materially narrowed, that could impact their decision to trade in that market broadly.

- More technically, the "on-peak" and "off-peak" definitions used in the CRA Study do not align with the "on-peak" and "off-peak" definitions commonly used by traders when entering into trades. The CRA Study uses a "5x12" definition of on-peak (7 am to 7 pm) whereas traders typically utilize a "5x16" definition of on-peak (7 am to 11 pm). There are two problems with this. First, if the Board determined that one of the two-tiered options was most appropriate, the Ontario tariff would not align with other markets and how traders structure their transactions, thereby creating an unnecessary barrier to trade. Second, if the Board implemented the ETS tariff as a 5x16 two-tiered structure to align with other markets, the basis for the Board doing so would be flawed because the Board would be using CRA model outcomes that do not match up with the tariff structure.

H. COST FAIRNESS OF ETS TARIFF OPTIONS

56. The CRA Study does not recommend any particular ETS tariff option as being fairer than any other. Rather, the CRA Study points out the fairness factors to consider with respect to the various tariff options.

57. APPrO submits that the unilateral elimination of the ETS tariff is fairer from a rate-making perspective than increasing the tariff to the EANC of $5.80/MWh. Although HONI has not actively participated in the determination of the ETS tariff, and HQEM has highlighted the absence of any cost-causality evidence in this proceeding, APPrO would submit as follows:

- The interties were not built to facilitate trade by exporters. They were built for reliability and efficiency purposes for domestic load.

- The export service provided to exporters in Ontario is not a firm service equivalent to network service, line connection service or transformation service.

Rather, the use of the intertie creates a benefit by utilizing excess transmission capacity that was built for other purposes as noted above. By utilizing this excess capacity, efficiency benefits are created for Ontario.

- The ETS tariff is only part of the non-commodity costs payable by exporters. As noted in Table 2 of the CRA Study, Ontario's all-in non-commodity costs payable by exporters is at the high end of the range. Ontario exporters pay uplift and administration costs that are significant.

58. Thus, on a preliminary assessment of fairness and cost causation, unilateral tariff elimination is the most reasonable of the studied tariff options.

I. MARKET EFFICIENCY FOR EACH ETS TARIFF OPTION

59. The IESO favours elimination of the ETS tariff on the basis that it would "best encourage the efficient use of electricity and promote economic efficiency in the generation, transmission and sale of electricity."

IESO Submissions, p. 5, para. 21

60. APPrO agrees with the submissions of the IESO on this point that the unilateral tariff elimination would result in increased exports, which result in the following market benefits:

- Increased uplift charges payable by exporters to reduce the consumers' uplift burden (*IESO Submissions, pp. 6-7, para. 23*)
- Increased intertie congestion rent collected by the IESO (*IESO Submission, p. 7, para. 25*)
- More efficient use of the interties (*IESO Submission, p. 8, paras. 27 and 28*)
- Greater regional efficiency by reducing barriers to trades (resulting in North American production costs lowered by an average of $23 million annually under the unilateral tariff option) (*IESO Submission, p. 8, paras. 29 and 30*)

61. In addition, while the IESO noted that none of the proposed ETS tariff options studied by CRA would impair the IESO's ability to reliably manage the power system, including in SBG conditions, it is clear from an undertaking response that the interties are not fully used during SBG events.

62. SBG is defined as baseload generation that is in excess of Ontario demand and exports. In 2012, there were 435 hours of SBG and no instances during these SBG hours when all the interties were congested at the same time. Moreover, there were 260 hours (or approximately 60% of the time) during SBG hours when no interties were congested, and there were 175 hours (approximately 40% of the time) during SBG hours when at least one Ontario intertie was congested.

IESO Undertaking J2.1

63. It is clear that Ontario is not fully using exports to manage the problem. CRA notes that exports can play a role in helping smooth the supply-demand balance during SBG events. The IESO does not have control over exports – it must rely on traders to export power and a higher ETS tariff discourages trade.

CRA Study, p. 11

64. Thus, notwithstanding that the IESO has other mechanisms within its control to manage SBG, it is clear that lowering the ETS tariff and enhancing trade would reduce SBG and the IESO's requirement to manage SBG (and the costs of doing so).

J. CONCLUSION

65. For all of the above reasons, APPrO submits that eliminating the ETS tariff results in the most reasonable rate, and provides the greatest benefit to Ontario.

All of which is respectfully submitted this 22nd day of March, 2013.

ASSOCIATION OF POWER PRODUCERS OF ONTARIO

Original signed by Richard King

By its Counsel, Norton Rose Canada LLP
Per: Richard J. King