Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1
t 416.967.7474
www.ieso.ca

October 15, 2026

Mr. Ritchie Murray
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mr. Murray

**Re: EB- 2026-0164–Hydro One Networks Inc. and Hydro One Sault Ste. Marie LP – 2028-2032 Custom Incentive Rate-Setting Application for Transmission Revenue Requirements and Distribution Rates**

Pursuant to the Ontario Energy Board's Decision in EB-2021-0243, which directs the IESO to prepare an Export Transmission Service (ETS) report aligned with the timing of Hydro One's next cost allocation update, please find enclosed the ETS Report.

If you have any questions, please contact me at carrie.aloussis@ieso.ca or 416.969.6090.

Sincerely,

Carrie Aloussis

Carrie Aloussis

Senior Manager, Regulatory Affairs

Independent Electricity System Operator

# EXPORT TRANSMISSION SERVICE RATE

Independent Electricity System Operator (IESO) Submission
EB-2026-0164

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# 1. Introduction

In its Decision and Order EB-2021-0243[1] (Decision), Generic Hearing on Uniform Transmission Rates-Related Issues and the Export Transmission Service (ETS) Rate, the OEB directed the IESO to provide a recommendation on the ETS:

> "The IESO shall generate a report that aligns with the timing of Hydro One's next cost allocation update that includes relevant market data and analysis together with a recommendation on the ETS rate that incorporates consideration of the implications of the Market Renewal Program, the domestic supply/demand outlook and impact on interties exports".

The ETS rate is applicable for the use of the transmission system in Ontario to deliver electrical energy to locations external to the Province of Ontario, irrespective of whether this energy is supplied from generating sources within or outside Ontario[2].

In its Decision the OEB established a revised framework for the ETS, concluding that a non-zero ETS should continue alongside the Intertie Congestion Price (ICP).

The ETS rate set by the OEB was $1.78/MWh effective January 1, 2023, with a two-year stability period followed by indexation to Hydro One's Revenue Cap Index. In its Decision the OEB determined the ETS using a cost allocation methodology grounded in the *Elenchus Report: Export Transmission Service Rate Cost Allocation Methodology* (2021 Methodology), but after considering broader policy matters, ultimately applied a factor of 20% for the allocation of network costs, inclusive of other transmitters' revenue requirements.

# 2. Historical Market Export Outcomes and Future Outlook

## Implications of the Market Renewal Program

The Market Renewal Program (MRP) introduced important market design changes that improve the efficiency of the wholesale electricity markets and some of which impact export transactions. As in the legacy market, import and export intertie transactions continue to be scheduled based on the economic evaluation of bids and offers, however with MRP, intertie transactions may be scheduled in the new financially binding Day-Ahead Market (DAM), which provides greater price certainty by ensuring trades

[1] https://www.rds.oeb.ca/CMWebDrawer/Record/762283/File/document

[2] https://www.rds.oeb.ca/CMWebDrawer/Record/929519/File/document

are scheduled one day in advance. In addition, intertie transactions continue to have the opportunity to be scheduled in the real-time market. In the legacy real-time-only market, traders only had the opportunity to be settled in real-time and were exposed to price volatility. Locational Marginal Pricing (LMP), another key feature of the renewed market, reflects the costs of transmission congestion in the market clearing prices whereas in the legacy market, Congestion Management Settlement Credits (CMSC) were determined after-the-fact to capture congestions costs and were recovered from all consumers. The renewed market provides more transparent pricing that reflects the cost of meeting system needs. It also gives traders clearer signals when developing bids and offers for intertie transactions.

## Relevant Market Data

The volume of exports has been trending upwards over the last five years as show in in Table 1.

**Table 1. Actual Export Volumes**

| Year | Export Volume (TWh) |
|---|---|
| 2021 | 16.9 |
| 2022 | 17.5 |
| 2023 | 16.5 |
| 2024 | 19.1 |
| 2025* | 21.1 |
| 2026^ | 15.6 |

*2025 operated legacy and MRP markets, with MRP from May 1st onwards.

^2026 is up until August 31, 2026

**Source:** IESO, Yearly Intertie Schedule and Flow Report, actual export flows aggregated by month[3].

### Domestic Supply and Demand Outlook

While exports have increased in recent years, future export opportunities will depend increasingly on Ontario's supply and demand outlook. The 2026 Annual Planning Outlook (APO) indicates that electricity demand increased by approximately 7.8% between 2021 and 2025[4]. Demand is projected to continue growing in the near term, with annual demand growth forecasts of approximately 3.0%[5], driven in part by electrification, economic growth, and emerging technologies. Incremental annual

[3] https://reports-public.ieso.ca/public/IntertieScheduleFlowYear/

[4] https://www.ieso.ca/Sector-Participants/Planning-and-Forecasting/Annual-Planning-Outlook, Figure 3

[5] Ibid, page 24

energy needs of 8.5 terawatt hours (TWh) are expected to emerge by 2032. On the supply side, Ontario's ongoing nuclear refurbishment program is expected to reduce the availability of the nuclear fleet over the near term, with up to 3,700 MW of nuclear capacity unavailable over the next five years[6]. These refurbishment activities are expected to reduce the frequency and magnitude of surplus baseload supply conditions relative to historical experience. The significant expansion of battery energy storage resources has enhanced the ability of the Ontario electricity system to manage periods of lower demand and absorb excess generation, thereby reducing reliance on exports as the primary mechanism for managing surplus energy conditions. Incremental capacity needs begin at less than 100 megawatts (MW) in 2034 and rise to 950 MW in 2035 driven by increased demand and resources reaching end of contract.

Ontario has historically been a net exporter of electricity; interties with neighbouring provinces and states have provided ratepayer savings, supported reliability of the interconnected grid, and reduced emissions across the region. Exports have provided economic benefits to Ontario by contributing to transmission cost recovery through ETS revenues, uplift charges, and ICP revenues[7].

Exports transactions are price sensitive in varying degrees. Large increases to ETS charges can reduce export volumes, which in turn may lower ETS and ICP revenues and diminish the operational and economic benefits associated with exports.

Export volumes are forecast to be lower than the levels of recent years with an average of approximately 10.8 TWh per year from 2026 to 2030. An annual export forecast is shown in Table 2 below.

**Table 2. Forecast Export Volumes 2026-2030**

| YEAR | EXPORTS (TWh) |
|---|---|
| **2026** | 11.5 |
| **2027** | 8.2 |
| **2028** | 10.1 |
| **2029** | 9.9 |
| **2030** | 14.0 |

# 3. Recommendations

[6] Ibid, page 30

[7] IESO, Market Implications of the Export Transmission Service Rate, July 2021, page 8: https://www.rds.oeb.ca/CMWebDrawer/Record/728429/File/document

The IESO recommends maintaining an ETS rate that continues to support economically efficient exports while reflecting current system conditions and the evolving supply-demand outlook.

In EB-2021-0243, the IESO recommended that the ETS be set at $0/MWh or no higher than $1.85/MWh. The IESO submitted the *Market Implications of the Export Transmission Service Rate – July 2021* report, which found that excess generation, over and above domestic needs posed a risk and that a $0/MWh ETS rate would lower barriers for exports to be scheduled and avoid costly and undesirable control actions to maintain reliability. Since then, system conditions have evolved with strong demand growth and reduced nuclear availability, both leading to reductions in anticipated surplus conditions. The evolution of Ontario's electricity system has reduced the extent to which a $0/MWh ETS rate is necessary to support the reliable operation of the electricity system.