From: Adam S White
Sent: July 21, 2009 4:32 PM
To: IESO Stakeholder Engagement
Subject: AMPCO comments on Export Transmission Service Tariff Options (IESO SE-78)

I am writing with comments on the IESO's recent study of options to replace the current $1/MWh export transmission service tariff.

The economic analysis that the IESO has commissioned provides useful insight into the comparative and incremental impacts of implementing options to the status quo. Of interest to AMPCO is the implicit acknowledgement of the deleterious impact of the current tariff on the welfare of consumers. The reality is that domestic consumers have, since 1999 at least, subsidized foreign consumers. While the study makes no explicit estimate of this, the conclusions of the study must be considered in this context, i.e., that an increase in consumer surplus relative to producer surplus necessarily represents an improvement from the status quo, whereas a relative increase in producer surplus would make a bad situation worse.

AMPCO supports the fundamental principle of "user pay". With respect to transmission services, AMPCO has taken the position that, as closely as possible, charge determinants for network services should be designed to reflect the marginal cost of providing those services. Since perfect marginal cost pricing of transmission service is not currently practical, AMPCO has proposed a network charge determinant (in the recent OEB hearing of Hydro One's application for transmission rates in 2009 and 2010) based on customers' demand during periods of peak demand on the network. AMPCO's proposal is based on the understanding that transmission network investment is largely driven by peak, not average demand, and is similar to rates already in place in other jurisdictions. We recognize however, as a practical matter, that a tariff design that is best for a domestic customer might be unsuitable for a foreign consumer. Exports are unlike domestic consumers in that export transactions are transitory and not necessarily or readily attributable to a specific customer or consumption pattern.

While we support the IESO's efforts to review all the potential impacts of a change in the ETS tariff, we would suggest that effects on air emissions in the USA are not of primary relevance to the determination of an optimal tariff for export service by the IESO. (Looking at emissions of a few selected contaminants hardly qualifies as an environmental impact assessment in any case; if environmental attributes were to be used as a basis for rate design, we would expect a much more comprehensive analysis.) We note also the limitations of the study with respect to modelling market responses, changes in market players, fuel costs, etc.

Option 1 (status quo) is not acceptable to AMPCO, since it proposes to continue with a tariff that has no factual foundation in cost drivers. While we understand the original rationale for this level as a "placeholder" tariff, the time has long passed since it should have been discarded.

Option 2 (average network cost, calculated on a $/MWh basis) would appear to provide the simplest solution by doing a simple update of the current tariff. It also has the appeal of eliminating the existing subsidy of exporters by Ontario customers. However, it is not clear that the value calculated by the IESO has considered properly the actual usage of the network by exports and how this usage drives the cost of export transmission service. We would appreciate the IESO providing more detail on how the value of the equivalent average network cost has been calculated.

Option 3 (reciprocal agreements) appears to be a non-starter, given the lack of interest by other jurisdictions.

Option 4, Scenario 1 (unilateral elimination of the ETS tariff) is unacceptable, since it would clearly provide preferential treatment for exports over Ontario customers.

Option 4, Scenario 2 (status quo during peak hours, elimination of the tariff during off peak hours) is unacceptable as written, since it would continue the unjustified $1/MWh tariff during peak hours. This option does, however, contain the basic elements of an ETS tariff design that we suggest should be explored further. AMPCO would support a tariff design similar to this scenario if the tariff during peak hours were calculated based on the average cost of service during peak hours. Presumably, this average network cost would be higher than that calculated by the IESO as an "all hours" average. While not perfect, such a design would more closely reflect the cost of providing export service and would be an improvement on the current design.

We support the IESO's leadership in this area and look forward to the next iteration of the analysis incorporating our suggestions.

Regards,

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