



# POWER WORKERS' UNION

July 22, 2009

Independent Electricity System Operator  
Station A, Box 4474  
Toronto, Ontario  
M5W 4E5

Attention: Maia Chase, Stakeholder Engagement

**Re: Export Transmission Service Tariff Study (SE-78)**

The Power Workers' Union ("PWU") represents a large portion of the employees working in Ontario's electricity industry. Attached please find a list of PWU employers.

The PWU is committed to participating in energy related consultations and regulatory proceedings to contribute to the development of energy policy and regulatory direction that ensures ongoing service quality, reliability and safety at a reasonable price for Ontario customers. To this end, please find the PWU's comments on the Export Transmission Service Tariff Study (SE-78) - Draft Preliminary Report and Findings.

We hope you will find the PWU's comments useful.

Yours very truly,

Don MacKinnon  
President

c: John Sprckett  
Judy Kwik

CANADIAN UNION  
OF PUBLIC EMPLOYEES,  
LOCAL 1000, C.I.C.

244 EGLINTON AVE. E.  
TORONTO, ONTARIO  
M4P 1K2

TEL: (416) 481-4491  
FAX: (416) 481-7115

PRESIDENT  
Don MacKinnon

VICE PRESIDENTS  
Peter Falconer  
Brad Carnduff  
Mel Hyatt



## **List of PWU Employers**

AMEC Nuclear Safety Solutions  
Atomic Energy of Canada Limited (Chalk River Laboratories)  
BPC District Energy Investments Limited Partnership  
Brant County Power Incorporated  
Brighton Beach Power Limited  
Brookfield Power – Lake Superior Power  
Brookfield Power – Mississagi Power Trust  
Bruce Power Inc.  
Capital Power Corporation Calstock Power Plant  
Capital Power Corporation Kapuskasing Power Plant  
Capital Power Corporation Nipigon Power Plant  
Capital Power Corporation Tunis Power Plant  
Coor Nuclear Services  
Corporation of the City of Dryden – Dryden Municipal Telephone  
Corporation of the County of Brant, The  
Coulter Water Meter Service Inc.  
CRU Solutions Inc.  
Ecaliber (Canada)  
Electrical Safety Authority  
Erie Thames Services and Powerlines  
ES Fox  
Great Lakes Power Limited  
Grimsby Power Incorporated  
Halton Hills Hydro Inc.  
Hydro One Inc.  
Independent Electricity System Operator  
Inergi LP  
Innisfil Hydro Distribution Systems Limited  
Kenora Hydro Electric Corporation Ltd.  
Kincardine Cable TV Ltd.  
Kinectrics Inc.  
Kitchener-Wilmot Hydro Inc.  
London Hydro Corporation  
Middlesex Power Distribution Corporation  
Milton Hydro Distribution Inc.  
New Horizon System Solutions  
Newmarket Hydro Ltd.  
Norfolk Power Distribution Inc.  
Nuclear Waste Management Organization  
Ontario Power Generation Inc.  
Orangeville Hydro Limited  
Portlands Energy Centre  
PowerStream  
PUC Services  
Sioux Lookout Hydro Inc.  
Sodexo Canada Ltd.  
TransAlta Energy Corporation - O.H.S.C. Ottawa  
Vertex Customer Management (Canada) Limited  
Whitby Hydro Energy Services Corporation

## **IESO – Export Transmission Service Tariff Study (SE-78)**

### **Comments of the Power Workers’ Union on the Draft Preliminary Report and Findings**

#### **BACKGROUND**

The current Export Transmission Service (“ETS”) Tariff revenues in Ontario are based on the volume of export transactions from Ontario and the tariff rate is \$1/MWh. In Hydro One’s September 26, 2006 transmission rate application (EB-2006-0501), parties to the proceeding agreed that the current ETS rate be maintained until the 2010 transmission rate setting process and the Ontario Energy Board (“OEB” or “the Board”) directed that the Independent Electricity System Operator (“IESO”) undertake a study of the “appropriate” ETS tariff, taking into consideration three options identified and discussed in the proceeding as well as engage in negotiations with neighbouring jurisdictions towards establishing acceptable reciprocal arrangements with the aim of eliminating the ETS tariff. The IESO, in response to requests from various stakeholders and in consideration of the recent increase in the frequency of negative pricing in the Ontario market, expanded the scope of its review to consider additional ETS tariff options.

In this respect, the IESO identified the following four options that will be assessed as part of the study (“ETS Study” or “Study”):

**Option 1:** Remain the same at \$1/MWh applicable to export transactions (Status Quo).

**Option 2:** Equivalent Average Network - Under this option, export and wheel through transactions would pay a rate equivalent to Transmission Network Service, but using energy as the charge determinant (i.e. \$/MWh).

**Option 3:** Reciprocal Treatment of ETS Charge. This option considers two potential modes of reciprocal treatment:

1. Export tariff eliminated in all markets; and
2. Export tariff based on average embedded network cost (exception New York).

**Option 4:** Unilateral elimination of the ETS tariff. This option considers two scenarios under which the Ontario ETS tariff could be unilaterally eliminated:

1. Unilateral elimination of the tariff in all hours; and
2. Unilateral elimination of the tariff only during off-peak hours.

The IESO held stakeholder sessions that resulted in the formation of a working group, a stakeholder engagement plan and the outline of the approach and study methodology. The IESO engaged CRA International (“CRA”) to conduct the ETS Study.

On June 25, 2009, the IESO staff and CRA representatives presented stakeholders with an overview of the preliminary results of the ETS Study. Noting that the objectives of the Study had been to assess and analyze the potential incremental impact of each ETS tariff option with respect to the Hourly Ontario Energy Price (“HOEP”), Export Revenues, Export and Import Volumes and

Market Efficiency (i.e., total consumer and producer surplus), the preliminary results of the Study made the following general conclusions:

- **Due to its portfolio of hydro, nuclear, wind, and gas, Ontario has more opportunity to export (to PJM/MISO) after North American carbon policy takes effect**
- **ETS options such as the average network rate and the modeled reciprocal agreements tend to increase consumer surplus and decrease producer surplus**
  - **The average network rate scenario involves a unilateral increase in the ETS charge, reducing external demand for Ontario power, and reducing the HOEP**
  - **Because Ontario has a lower export tariff than its neighbors, reciprocal tariff elimination reduces net exports from Ontario, decreases producer surplus, and increases consumer surplus**
- **ETS options such as unilateral tariff elimination tend to increase producer surplus and decrease consumer surplus**
- **ETS revenues increase in the scenarios that involve ETS charge increases**
- **Impacts on SO<sub>2</sub> and NO<sub>x</sub> emissions are small because:**
  - **Ontario's CO<sub>2</sub> policy reduces those emissions well below their caps irrespective of the ETS charge scenario**
  - **The US CAIR policy restricts the emissions of both pollutants**
  - **But there is a small regional increase in emissions in the scenarios where the export tariffs are eliminated (in 2015)**
- **Under a North American cap-and-trade policy for CO<sub>2</sub> emissions, the ETS charge scenario has no effect on North American power system CO<sub>2</sub> emissions**

While the Study recognizes some limitations of the analysis undertaken to arrive at the above indicated conclusions such as:

- **Contracted generator arrangements and obligations have generally been ignored**
- **Bidding behavior has generally been ignored**
- **Implications of changes in “uplift charge” revenue (and any associated impacts on rates) are not considered**
- **Limited understanding of hydropower output shape (Ontario, Quebec, New York)**
- **Transmission constraints inside of Ontario are not modeled,**

a number of stakeholders expressed concerns that the limitations stated above and the lack of consideration of a number of other factors by the model applied to the Study rendered some of the model's results and forecasts either inaccurate

or unsupported by the real market situation and recent developments. The IESO endeavored to provide stakeholders with responses to the questions that were raised at the meeting and subsequently posted those responses as well as other documents including a preliminary qualitative assessment of the potential reliability and operational implications of each of the options, assessment of impacts on National Energy Board Fair Market Access Provisions, and assessment of Impacts on Federal Trade Provisions (i.e., North American Free Trade Agreement and General Agreement on Tariffs and Trade).

### **THE PWU'S COMMENTS**

The PWU's comments on the ETS Study's preliminary results and the responses to stakeholders' questions that the IESO posted on July 14, 2009, are made in recognition of the following:

The PWU recognizes the effort that the IESO staff and CRA have made in the face of the challenging task of attempting to determine the potential incremental impacts of each of the options under consideration on the four parameters established under the objectives of the Study as accurately as possible. The PWU recognizes that a number of variables and data that have the ability to skew the findings of the Study are hard to identify, quantify or account for due to the constant change of circumstances particularly in the recent few years and months. Factors related to the ETS require a lot of resources and time to analyze and forecast their impacts. These factors include, among others, changes in economic activities, the anticipated Cap and Trade policy for CO<sub>2</sub> emissions, the recent decline in demand for electricity in Ontario, the negative price phenomena, the uncertainty around the new nuclear build planned by the government, and the varying interests of the jurisdictions that trade electricity with Ontario.

The PWU believes that it is important that the Study's findings are factual-based, reasonably acceptable to stakeholders from a public interest perspective and one

that is durable or able to adjust and respond to the Ontario power market as it continues to evolve in Ontario given the significant implications of adopting any one of the tariff options.

Having reviewed both the preliminary results of the Study and the responses to questions that were posted subsequently, the PWU is of the view that the Study results, while informative, do not realistically provide for a decision making framework that can be relied on. The Study requires further improvement in many areas. Moreover, the preliminary results and the responses alone do not provide sufficient information to enable stakeholders to propose the appropriate tariff option or options that the IESO should recommend to the Board. For example, the PWU has not received at the time of preparing these comments the IESO's report in respect of its assessment of potential impacts on the Federal Energy Regulatory Commission ("FERC") / U.S. Department of Energy ("DOE") non-discriminatory transmission access and rate principles, which the IESO has promised to release. Similarly, with respect to questions and concerns raised on Surplus Baseload Generation ("SBG") analysis, it is not clear how the data provided to show the impact of the options on SBG relates to the OPA's projection of almost 800 hours in 2014 in the Integrated Power System Plan submission<sup>1</sup>. Also the IESO's latest communication with stakeholders indicates that further work is still underway:

**The IESO is carrying out a review of the SBG analysis taking into account the various concerns expressed by stakeholders, including confirming the seasonal demand forecast used in the earlier runs, use of Ontario on-peak and off-peak hydro production forecasts, and refining Quebec's hydro production assumptions.<sup>2</sup>**

With respect to the responses to the Action Items identified on June 25, 2009, the PWU notes that in some instances the Study will be updated to reflect stakeholders' comments, in other instances the response has been that such concerns were reviewed but deemed to be too insignificant to have any material

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<sup>1</sup> IESO Operability Assessment of the OPA's Integrated Power System Plan Issue 2.0 – April 21, 2008  
Table 3 pg 15

<sup>2</sup> Responses to Action Items - ETS Stakeholder Session – June 25, 2009

impacts. The PWU is of the view that without the opportunity to review the results of the re-run of the model that takes into consideration stakeholders' comments, stakeholders would find it difficult to determine the materiality of the updates and their implications on the potential incremental impacts of the proposed tariff options.

### **Recommendations**

The PWU intends to make its position with respect to each of the proposed options once the above noted clarification and update from the IESO and CRA are made available.

For the purpose of assisting the IESO in its effort to make a reasonable recommendation to the Board, the PWU recommends that the IESO consider the following:

- a. Market efficiency improves with reduction of export transaction fees; in fact, the elimination of transaction fees as a means of achieving market efficiency should be considered as the ultimate goal.
- b. As can be seen from recent events and as projected by the OPA, it is likely that SBG will increase over time which will significantly increase operating pressure on nuclear generation and puts these assets at increased operating and reliability risk as well as increased cost of maintenance and operations. As recently as July 14, 2009, the 795MW Unit 8 at the Bruce B generating station was taken offline at the request of the IESO due to SBG in Ontario. Appropriate compensation should be made to generators maneuvered as a result of such SBG decisions. A tariff option that results in the largest net export will allow nuclear units to operate on a more predictable load profile and avoid unexpected maneuvering of nuclear units that are deleterious to these assets. Moreover, the recommendation should take into account the

potential and the need for more exports in light of contracted generator arrangements that have been made with the OPA.

- c. As pointed out by the ETS Study, due to its relatively green generation mix, Ontario has an excellent opportunity to export more capacity when carbon trading comes into place.
- d. On balance, therefore, Option #4 appears to be superior to the other options in terms of positive impacts on export and market efficiency
- e. According to an update by the IESO staff at the stakeholders' meeting held on June 25, 2009, the IESO's discussion with its direct neighbours on the possibility of reciprocal elimination of the tariff (Option 3) has not been successful with the exception of the New York ISO ("NYISO"). The IESO indicated that, Hydro Quebec Trans-Energie had sent a letter stating that they have no basis on which to engage in any negotiation or to participate in any reciprocal arrangements on ETS elimination. Similarly, it was indicated that the Midwest ISO ("MISO") and its committees have not indicated a willingness to participate in such discussions. In this respect, the PWU is of the view that the IESO take this unwillingness on the part of these parties to negotiate a reciprocal elimination of tariff as a key consideration when making recommendations to the Board. In fact, given this circumstance, the PWU does not see the need to keep Option #3 – Scenario 1 in the list of options.
- f. While the PWU is still waiting for the IESO's report in respect of its assessment of potential impacts of the proposed options on FERC/DOE non-discriminatory transmission access and rate principles, the PWU agrees with the comments of Brookfield Renewable Power that reciprocal fee treatment proposed under Option #3 Scenario 2 could result in the possibility of charges that are in excess of the cost of service for transmission which is contrary to FERC's mandate. Therefore, subject to the IESO's expected report, the PWU suggests that Option #2 Scenario 2 should be ruled out.

- g. Reciprocal fee treatment under Option #3 would also be more complex and administratively more difficult to manage and may have some disadvantages related to achieving optimal utilization of the transmission system.
- h. The PWU notes that the assessment of the reliability and operational impacts of the proposed options relied not just on the findings of the ETS Study and analysis but also on the IESO's knowledge of historical practices and understanding of how participants generally react to market and system conditions. The PWU is satisfied that the assessment report is clear on the issue and that the various ETS tariffs considered will not adversely impact the IESO's ability to maintain reliability in that the potential trade volumes contemplated under the various ETS tariff scenarios do not represent a new risk or impairment to Ontario's reliability. The PWU also submits that the option that allows more export from Ontario through lower ETS tariff (at least lower off-peak tariff) would offer more reliability by allowing nuclear units to operate on a more predictable load profile and avoiding the maneuvering of units on short notice. The serious reliability risk that SBG places on Bruce Power and Ontario Power Generation should not be minimized and it is essential that the OEB is fully informed on this issue in the IESO's submission to the OEB.
- i. The appropriate option should also be one that prevents gaming the system by wheel through transactions carried out solely for financial gain. This is a potential threat under options that involve varying reciprocal fee arrangements with different neighbouring jurisdictions which, if not strictly regulated, could result in circuitous wheel through transactions.

## **CONCLUSION**

The PWU will be making further comment and submission when complete information and analysis is available. Based on the information so far, the PWU is inclined to recommend the following options in order of preference:

1. Option 4, Scenario 1 (Unilateral Elimination of the ETS tariff in all hours);
2. Option 4, Scenario 2 (Unilateral Elimination of the ETS tariff in off-peak hours); and
3. Option 1, Status Quo.