

I. Summary

As an outcome of Hydro One's September 26, 2006 transmission rate application (EB-2006-0501), parties to the proceeding agreed that the current export transmission service (ETS) rate of \$1/MWh be maintained until the 2010 transmission rate setting process. However, as part of the Ontario Energy Board's ("Board") decision the IESO was to 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. These options are discussed below and in Appendix A.

In conducting the study, the IESO will seek input from market participants and intervenors in Hydro One's transmission rate proceeding, as well as keep the parties informed of the progress of negotiations and the study. It was also agreed that the IESO will make a report available to the Board no later than June 1, 2009, outlining the results of the negotiations with neighbouring jurisdictions, impacts of the different options considered and recommendations for an appropriate ETS tariff. Stakeholder feedback will be included in this report as well.

II. Introduction

The ETS revenues are based on the volume of export transactions from Ontario. The current tariff rate is \$1/MWh. The IESO collects these revenues and remits them on a monthly basis to the transmission company whose transmission system is used to facilitate the export.

As a general matter, it is understood that an appropriate ETS tariff design and rate(s) would embody the following features: simple to implement, fair and equitable, promote market efficiency, and consistency with rates in neighbouring markets. It is anticipated that elimination of the ETS tariff would only be pursued in conjunction with negotiation of a reciprocal agreement between Ontario and neighbouring jurisdictions. Furthermore, it is expected that any change to the ETS tariff would need to be approved by the Board as part of a rate setting process which Hydro One will initiate as part of the 2010 transmission rate re-setting process, following the release of the study.

Scope of ETS Review and Analysis

To date the IESO has held a series of preliminary discussions with our neighbours to ascertain their ability or willingness to work towards acceptable reciprocal arrangements with the aim of the eliminating all ETS tariffs between our respective markets. Although still ongoing, the results of these preliminary discussions suggest that elimination of the ETS tariff on a collective and reciprocal basis is not feasible at this time. The IESO plans to undertake a study and assessment of options for establishing an appropriate ETS design and rate(s) for Ontario, taking into consideration the results of these preliminary discussions and further developments in this regard.

Specifically, the IESO will undertake the following:

1. Meet with stakeholders to discuss the results of the IESO's preliminary discussions with our neighbours, as well as the proposed approach for undertaking the ETS study. The IESO will also keep stakeholders abreast of its ongoing progress, and provide an opportunity for additional stakeholder input.
2. Carry out a quantitative review and analysis of the impact of each proposed ETS design and rate(s) scenario on total electricity export and wheel-through volumes, ETS revenues, Hourly Ontario Energy Price, and Ontario market efficiency.
3. Carry out a qualitative review of the potential impact of each ETS design and rate(s) options on cross-border emissions and reliability of the IESO-controlled grid, as well as their implementation requirements and potential challenges.
4. Recommend an appropriate ETS design and rate(s) for Ontario.
5. Provide a report of the results of the study including the recommended ETS tariff design and rate(s) and the results of discussions with neighbouring jurisdictions to the Board and stakeholders by no later than June 1, 2009.

If the Board determines that a reciprocal ETS arrangement (i.e., option 3) with our neighbours is appropriate, the IESO will commence formal negotiations with our neighbours to establish the terms and conditions of such an agreement following this determination.

The three options that will be assessed as part of the study are as follows:

- 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 Export Transmission Service Charge. This option considers a number of possible outcomes including the elimination of all export tariffs between jurisdictions.

See Appendix A for more information regarding the IESO's proposed approach for undertaking a quantitative analysis and review of each option.

III. Stakeholders

This initiative will be of interest to all market participants; in particular, transmission customers as well as Market Participants directly involved in performing export, import and wheel-through transactions. Once the study is complete, all stakeholders may have an interest in the findings and analysis and ensuing recommendations. We encourage all stakeholder sectors with an interest to participate in the process, including Board staff.

IV. Decision Making Process

All stakeholder views will be shared with the IESO Management and Board. Also, decisions in respect to the recommendation of an appropriate ETS tariff design and rate(s) including the results of the IESO's discussions with neighbouring jurisdictions will be documented and communicated, along with an explanation of how stakeholders input was taken into account.

The IESO will consider all input before recommending an appropriate ETS design and rate(s), or finalizing any agreements with neighbouring jurisdictions regarding reciprocal treatment of the ETS tariff. Any new replacement ETS tariff, or amendments to the current tariff and conditions, as well as the terms and conditions of agreements entered into by the IESO with neighbouring jurisdictions regarding reciprocal treatment of the ETS will have to be approved by the Ontario Energy Board before they can be made effective. The IESO will undertake a review of the Ontario Market Rules and make any amendments that may be required to facilitate the implementation of the ETS tariff or agreements following the Board's approval. Hydro One Networks Inc. and other affected transmitters are responsible for seeking any necessary changes to their transmission revenues and rate schedule accordingly.

V. Goals and Objectives and Overall Approach

The implementation of this stakeholder engagement plan will be in accordance with the IESO's approved [stakeholder engagement principles](#). The plan will be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted. Any changes in the process as a result of this initiative will be an IESO management decision.

Goal

The stakeholder engagement plan describes the IESO's proposed approach for undertaking the ETS study; in particular, the ETS tariff design and rate(s) scenarios that will be reviewed to ascertain their impacts on electricity export and wheel-through volumes, ETS revenues, Hourly Ontario Energy Price, and market efficiency

Feedback from stakeholders will help the IESO refine its approach in conducting the study.

Objectives

To provide stakeholders the opportunity to provide feedback on the proposed approach and the results of the study.

Approach

The stakeholder engagement approach will be the formation of a small group of stakeholders from various sectors that would be impacted. It is anticipated that the group would meet to review the initial

approach and a second meeting to review the preliminary outcome of the study. Written stakeholder feedback may also be solicited.

Web-based postings provide all interested stakeholders with an efficient low-cost method to be informed with the opportunity to communicate their views via e-mail to stakeholder.engagement@ieso.ca. All stakeholder input will be posted on the IESO website.

This stakeholder engagement plan may be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted.

VI. IESO Sponsor

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VII. Decision Making Steps and Schedule of Activities

Stakeholder Engagement Schedule		
Activity	Expected Actions	Target Date for Completion
1. Publish stakeholder engagement plan for feedback from stakeholders. Solicit volunteers for stakeholder group.	Stakeholders to provide written feedback	December 11, 2009
2. Deadline for written input from stakeholders on the stakeholder engagement plan and volunteers for the group.	IESO to post stakeholder feedback	January 12, 2009
3. Posting of revised stakeholder engagement plan incorporating feedback from stakeholders.	IESO to publish revised stakeholder engagement plan and list of members in working group	January 16, 2009
4. First meeting to review study approach and study methodology.	Dialogue- presentation on proposed approach and study methodology	January 22, 2009
5. Deadline for stakeholder comments on study approach and study methodology.	IESO to post feedback from stakeholders	January 30, 2009
6. Post IESO response to stakeholder feedback on the study approach and study methodology.	IESO to publish response to stakeholder feedback	February 4, 2009
7. Second meeting to present/Post results of preliminary results of the study, and IESO recommendation.	Dialogue – IESO to publish initial study results.	April 2009
8. Deadline for comments on the preliminary results and recommendations.	IESO to post feedback from stakeholders	May 7, 2009
9. IESO submissions to Ontario Energy Board and publication of its findings and recommendations.	IESO to report findings	On or before June 1, 2009

Appendix A

Export Transmission Service Design Options

The IESO has engaged an external consultant to assist with the quantitative analysis and assessment of the three ETS options. An illustrative example of the approach for undertaking the quantitative analysis and assessment of each option is discussed below.

Option 1 – Status Quo Option (Model Calibration)

Ontario	\$1.00/MWh
New York	\$r
MISO	\$x
Quebec	\$y
PJM	\$z

The status quo will be assessed under this option. The input values pertaining to the current export tariff for each of interface “r”, “x”, “y”, and “z” will need to be established, using for example, the RJ Rudden Report.

Option 2 - Average Network Rate Option

	Average Network Rate
Ontario	\$4.00/MWh
New York	\$r
MISO	\$x
Quebec	\$y
PJM	\$z

This scenario is a derivative of the status quo, with the input value for Ontario changing to a value which reflects the average cost for the provision of network transmission service in Ontario. In the example in the above-noted table this value is set to \$4/MWh for illustrative purposes. The IESO will establish the actual average cost for network service in conjunction with Hydro One and the other licensed transmitters.

Option 3 – Reciprocal Treatment (The Mixed-Option)

ETS Run	Ontario Interconnection Interfaces			
	ON/NY(\$/MWh)	ON/TE (\$/MWh)	ON/PJM (\$/MWh)	ON/MISO \$/MWh)
1	0	0	0	0
2	0	2	2	2.50
3	0	4	2.5	3.0
4	0	5	3.0	3.0

As discussed earlier, it is understood that elimination of the ETS tariff would only be pursued in conjunction with negotiation of a reciprocal arrangement with our neighbours. The intent of this option is to model a tariff design and rate scenarios that reflect the possible outcomes of our ongoing discussions for reciprocal treatment of the export transmission service charge with our neighbours. As stated in the Board’s Settlement Proposal Decision, the ultimate end-state would be to arrive at an arrangement to eliminate the export transmission charge on a reciprocal basis (scenario 1 in the above-noted table); however, based on the IESO’s preliminary discussions with our neighbours this doesn’t appear to be a reasonable outcome at this time. Accordingly, the IESO expect that under this option it is more likely that we could end-up with a mix of ETS rates on our interfaces or implied interface as is the case with PJM.

Given that the discussions with our neighbours are still ongoing, the IESO is unable to identify what a reciprocal rate might be on each of the representative interface at this time. However, the IESO intends to model a range of possibilities to ascertain the likely impacts (i.e., what are the impacts if the reciprocal ETS rate(s) were set somewhere between the current tariffs on each side of the border). For example, if the current TransEnergie (TE) charge was determined to be \$5.00/MWh, the range of possible reciprocal rates between Ontario and Quebec would fall between \$1/MWh-\$5/MWh. In the second scenario in the above-noted table, for illustrative purpose this is set at \$2/MWh.

Assessment of Export Transmission Service Design and Rate(s) Options

The IESO will undertake a comprehensive quantitative analysis and assessment to ascertain the potential impact that each of the ETS tariff design and rate(s) option being considered will have on the following items:

- a) total electricity export and wheel-through volumes,
- b) ETS revenues,
- c) the Hourly Ontario Energy Price, and
- d) Market efficiency

In addition, the IESO will undertake a qualitative review of the potential impact of each ETS design and rate(s) options on cross-border emissions and reliability of the IESO-controlled grid, as well as their implementation requirements and potential challenges.