

June 8, 2009: Revision 2, Updated to reflect additional ETS options that will be studied and analysed.

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. Increased frequency of negative pricing in the Ontario market has highlighted the need for consideration of other potential ETS tariff options and scenarios. Given this situation, and in response to requests from various stakeholders, the IESO expanded the scope of its review to consider two additional ETS tariff options that did not appear viable prior to this. The range of options that will be reviewed are discussed below and in Appendix A.

In conducting the study, the IESO will continue to 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. The expanded scope of the review resulting from the need to consider additional ETS options has given rise to the need to extend the timeline for completion of the study and recommendation. Accordingly, the IESO requested an extension to August 14, 2009 to consider a broader range of ETS tariff options which will enable it to determine and recommend an appropriate ETS design and tariff for Ontario. Stakeholder input and feedback is an important consideration for this study and the additional time will permit the IESO to consult with stakeholders prior to producing the final report and recommendations.

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. The initial plan was to review

and consider any recommended change to the ETS tariff as part of the 2010 Hydro One rate application; however, given that the study was ongoing during this year's rate application, Hydro One will now consider this as part of the 2011 transmission rate application which is expected to be filed with the Board by fall 2009.

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 subsequent 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. Solicit stakeholders' input, individually and collectively regarding issues pertaining to the work. 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 four options that will be assessed as part of the study are as follows:

- Option 1: Status Quo.** The ETS tariff remains the same, at \$1/MWh, applicable to export transactions.
- 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 two potential mode of reciprocal treatment, including the mutual elimination of all ETS tariffs between jurisdictions.
- 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.

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 stakeholder input was taken into account.

The IESO will consider all input before finalising the report and 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

Name	Title	Department	Phone Number	E-mail
Nicholas Ingman	Manager, Regulatory Affairs	Corporate Relations & Market Development	416-506-2821	nicholas.ingman@ieso.ca

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.	June 25 th , 2009
8. Deadline for comments on the preliminary results and recommendations.	IESO to post feedback from stakeholders	July 7, 2009
9. IESO submissions to Ontario Energy Board and publication of its findings and recommendations.	IESO to report findings	On or before August 14 th , 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 (see http://www.ieso.ca/imoweb/pubs/consult/se78/se78-20090122-Review_of_Export_Tariff_in_Other_Jurisdictions.pdf).

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	5	2	2.50
3	0	4	2.5	3.0
4	0	5	3.0	3.0

As discussed earlier, it is understood that there is a preference for elimination of the ETS tariff 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 Settlement Proposal and 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 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 \$8.00/MWh, the range of possible reciprocal rates between Ontario and Quebec would fall between \$1/MWh-\$8/MWh. In the second scenario in the above-noted table, for illustrative purpose this is set at \$5/MWh.

Option 4 –Unilateral Elimination of the ETS Tariff (i.e., Complete or Partial elimination)

Stakeholders, in general, supported the notion that elimination of the Ontario ETS tariff be pursued on a reciprocal basis. However, with increased frequency of negative pricing observed in the Ontario market, this has elevated the need and desire for consideration of other proposals that may help optimize demand/supply balance, including unilateral elimination of the ETS tariff. Negative market prices as observed are usually a reflection of surplus base-load resources during off-peak periods. Left unchecked, these occurrences are expected to continue into the future. Under this option, the effects of unilateral elimination of the ETS tariff will be reviewed. Two scenarios under which the ETS tariff could be unilaterally eliminated will be reviewed, these are as follows:

1. unilateral elimination of the \$1.00/MWh ETS tariff in all hours, and

2. unilateral elimination of \$1.00/MWh ETS tariff during the off-peak hours only (i.e., \$1.00/MWh during peak hours and \$0.00/MWh during off-peak periods).

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.