67 Yonge St.
Suite 1040
Toronto, ON M5E 1J8

APPrO
ASSOCIATION OF POWER PRODUCERS OF ONTARIO

February 7, 2020

Ms. Barbara Ellard, Director – Markets and Procurements
Independent Electricity System Operator
120 Adelaide St. W
Toronto, ON
M5H 1T1

Dear Barbara:

RE: Transmission Rights Clearing Account ("TRCA") Disbursement Methodology Changes

APPrO and the Coalition of Ontario Producers and Exporters continue to participate in the Independent Electricity System Operator's ("IESO") stakeholder engagement on the TRCA disbursement methodology. This is intended to provide formal comments in response to the Market Development Advisory Group session on January 21, 2020.

We support the IESO's decision to delay implementation of the changes to the TRCA disbursement by 6 months but continue to recommend delaying the effective date of the proposed market rule amendments to November 2021 to maintain the fidelity of the Transmission Rights ("TR") auctions that have already been run. The IESO's proposed implementation date is still arbitrary and harms market participants that have already purchased long-term TRs.

We appreciate the IESO's efforts to quantify the impacts of the proposed disbursement methodology and recognize the inherent challenges in conducting such an assessment. However, we believe that the IESO's assessment shows that consumers will likely receive little, if any, benefit and could instead be worse off following the proposed market rule amendments.

In short, we continue to be opposed to the proposed market rule amendments because the proposed changes to the TRCA disbursement methodology are unjustly discriminatory to exporters and are inconsistent with the purposes of the *Electricity Act, 1998*.

The IESO has not demonstrated why surplus disbursements to exporters should be terminated

The IESO has concluded that exporters do not contribute toward the long-term costs of the transmission system and therefore should not receive any allocation of congestion rents whatsoever. The IESO supports its decision to terminate surplus disbursements to exporters in part on the basis that, in the IESO's view, the Export Transmission Service ("ETS") rate is a rental charge or type of user fee that exporters can avoid simply by not exporting.[1]

Stakeholders have responded that loads are no different than exports in this context because loads can also avoid transmission rates by not consuming. The IESO has rebutted this position using an example where a single load does not consume and shows that the costs of the transmission system for all other consumers would increase.

The IESO's example of a *single* consumer not consuming is entirely inconsistent with the IESO's use of an example of *all* exporters not exporting. Rather, there is no difference between exporters and loads in the extreme case developed by the IESO. Just as exporters would pay no transmission costs if there were no exports, loads would pay no transmission costs if there was no load on the transmission system.

In any event, the reality is that the approach used to establish transmission rates is similar for both loads and exporters. Certain transmission costs are allocated to each rate class and then a forecast of future demand or exports is used to calculate the payable rate.[2] The ETS rate increases when exports are forecast to be lower, which is identical to the increase in the Provincial Transmission Service ("PTS") rate when demand is forecast to be lower. This means that the decision of a single exporter not to export is no different from the decision of a single load not to consume, and that both classes of participants pay for the long-term costs of the transmission system and are therefore eligible for disbursements from the TRCA.

The proposed changes may reduce the efficiency of the IESO-administered markets

The IESO's analysis continues to ignore the impact of the ETS rate on export bidding behaviour. The IESO has stated that the TRCA disbursements are a subsidy to exporters that could result in uneconomic export transactions.[3] This is only true if the impact of the ETS rate is ignored.

The ETS rate in fact hinders economic export transactions because it increases the all-in cost of energy paid by an exporter. An exporter would not seek to export if the current ETS rate of $1.85/MWh causes the expected value of an export to be negative. The TRCA disbursements offset part, but not all, of the ETS rate, and therefore improves the efficiency of export bids.

We acknowledge that there is the potential for the TRCA disbursement to exceed the ETS rate and create a net subsidy to exporters that could encourage uneconomic exports. This has not occurred historically but could occur in the future due to changes in export levels or the ETS rate. For this reason, we have proposed as an alternative to maintaining the status quo, that the IESO cap the disbursements to exporters at the ETS rate.

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[1] IESO response to comments dated January 14, 2020, p. 11, "If no market opportunities were available, traders would not transact and not pay any costs of the system."
[2] This is at issue in Hydro One's 2020-2022 transmission rate application but the OEB's decision in EB-2012-0031 has established that the rate should be calculated as described.
[3] MDAG Presentation of January 21, 2020, slide 17. IESO response to comments dated January 14, 2020, p. 10.

There are extra-jurisdictional precedents for allocating congestion rents to intertie traders and TR holders

Part of the IESO's rationale for eliminating TRCA disbursements to exporters was that this is a common practice in U.S. jurisdictions. The IESO stated that neighbouring ISOs do not return congestion rents to exporters, including a specific example for the NYISO.[4]

MAG Energy has pointed out that both MISO and the NYISO return congestion rents to either intertie traders or TR holders but not necessarily as a direct payment. For example, the NYISO allocates congestion rents to the Transmission Owners who in turn reduce their Transmission Service Charges, including the charges to exporters.

The IESO initially supported its decision based on its review of policies in the U.S. markets. The IESO is now distinguishing Ontario as different from those U.S. markets after stakeholders presented information that there are precedents in the U.S. markets for maintaining the status quo TRCA disbursement methodology in Ontario.[5] We agree that it is important to consider practices in other jurisdictions but also recognize that Ontario has important differences from these jurisdictions.

The Ontario context includes the OEB's decisions about the design of the ETS rate, particularly that it is intended to collect the long-term costs of the intertie facilities from exporters. It may be appropriate for the IESO to disburse all congestion rents and the TRCA to the transmitters, who can then determine how best to allocate these amounts among transmission customers. This is an approach taken in some neighbouring jurisdictions. It appears that the IESO could adopt this approach through a market rule amendment.

A clear framework is needed

The relevance of the U.S. markets to the TRCA disbursement methodology highlights the importance of having a clear framework for making policy decisions. It is challenging for all parties – both stakeholders and the IESO – to have an informed discussion about a complex issue without clear objectives and supporting assessments that will determine how a decision will be made. There is a real risk that all parties will focus on information that supports their position rather than the key information that supports a sound decision.

In our view, the critical questions for determining the TRCA disbursement methodology are:

- Is the disbursement methodology unjustly discriminatory?
- Does the disbursement methodology protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service?
- Does the disbursement methodology promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity?

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[4] MDAG Presentation, December 4, 2019, slide 12. IESO response to comments dated January 14, 2020, p. 12.

[5] MDAG Presentation, December 4, 2019, slide 18, "Consistency with neighbouring jurisdictions".

The answers to these questions strongly support rejecting the proposed market rule amendments, and support maintaining the current disbursement methodology with a possible cap on the disbursements to exporters set at the ETS rate.

Thank you for inviting comments on the TRCA disbursement methodology. Please contact me if you have any questions about the foregoing.

Sincerely,

David Butters
President and CEO

And the Coalition of Ontario Producers and Exporters