

February 5, 2009

Nicholas Ingman
Manager, Regulatory Affairs
Market Evolution Analysis and Research
Independent Electricity System Operator
655 Bay Street
Suite 410
Toronto, ON
M5G 2K4

RE: Comments on proposed study methodology for Export Transmission Service Tariff Review

Dear Mr. Ingman:

I am writing in response to the IESO's request for stakeholder input on the proposed study approach and methodology for the review of the Export Transmission Service Tariff (ETS) Review. Bruce Power attended the stakeholder session where the study methodology was introduced and appreciates the opportunity to provide input at this early stage of the analysis.

Before commenting on the specifics of the study proposal Bruce Power would like to express concerns with the formulation of the ETS study. There should be some recognition by the OEB, IESO and participants that this study approach is not a substitute for a full cost of service finding for export transmission service. This study will not determine the cost of exports to the transmission system as a full cost of service hearing would. The rate ultimately determined from this model will have no connection with the cost of providing export service. The rates used in this analysis should not be construed to be the 'appropriate' or 'efficient rate'. The model as proposed will not determine the optimal rate for export transmission service. The model will use the ETS rate as an input to calculate the lowest cost of meeting demand in the region (Ontario, New York, PJM, etc). The efficiency results and trade flows that result from the model will be affected directly by the choice of the ETS tariff. The ETS rate used in the model has been chosen arbitrarily during discussion at the stakeholder session and should not be construed as an efficient rate. The model will demonstrate the market impacts of various rates and provides the IESO, OEB and stakeholders with information to determine the potential impact



of different ETS rates. Following this study an open question still remains as to the true cost of exports to the transmission system.

When conducting the ETS review Bruce Power requests the IESO to investigate the impact of a peak and off-peak rate for export transmission service. Most surrounding jurisdictions have peak and off-peak rates for export transmission service and the current formulation of the demand charge for Ontario consumers implicitly applies a peak and off-peak rate for their transmission usage through the use of the higher of “demand coincident peak” or “85% of demand” transmission charge calculation. Both of these factors imply that there is a significant difference in the cost of using the transmission network in peak and off-peak hours. In addition to the two precedents discussed for peak and off-peak rates Bruce Power has publicly stated that Surplus Baseload Generation represents a significant reliability risk to Bruce Power and the Province as a whole. Introducing a lower off-peak rate for export transmission service would be one of a suite of efficient market based mechanism to address the reliability issues of Surplus Baseload Generation. For the purposes of the study Bruce Power would suggest using an off-peak tariff of \$0/MWh and the equivalent network rate for the peak export tariff.

With a study of this type the assumptions used in the analysis will have a direct impact on the results. For this reason it is very important to understand the inputs used for model. For this reason all the input assumptions should be released publicly wherever possible. When it is not possible to publish the exact input assumptions a qualitative statement of the inputs should be presented in its place. Promoting transparency in a study like this is the only way to ensure that all stakeholders have the opportunity to clearly understand the results and the drivers that lead to the results. Bruce Power has the following detailed comments on the input parameters of the model:

- Bruce Power supports the use of the most current demand data possible and is encouraged that the IESO is working with the OPA to gather the most recent demand data possible.
- Input fuel cost assumptions (natural gas, coal, oil) will have a significant impact on the trade flows between jurisdictions. A public source of fuel cost assumptions should be used so that these inputs can be publicly disclosed.
- As with input fuel cost assumption the foreign exchange rate has a tremendous impact on the trade flows between jurisdictions. Bruce Power suggests using the current exchange rate to test the model under a (likely) high export scenario.



- The method used to incorporate the OPG emission restrictions should be made publicly available. In the first model year of 2010 the OPG off-coal regulations will have a significant effect on the trade flows between jurisdictions.
- The method used to determine the production cost for hydro resources should be made publicly available. Ontario has a vast amount of hydro resources and the implied production cost (opportunity cost) of these resources will have a significant impact on the trade flows.
- Similarly with the supply available from hydro resources. In 2008 Ontario experienced a drastic increase in the amount of energy produced from the hydro electric resources and the hydro available in 2010 is uncertain. To test the model under high export scenarios Bruce Power recommends using supply from hydro resources from 2008 or another similar high hydro output year.

The stakeholder session on January 22 was a productive session and many interesting thoughts and points of view were presented. Bruce Power looks forward to future meetings of this group to discuss the preliminary results.

Please feel free to contact me if you have any questions or concerns.

Yours truly,

A handwritten signature in blue ink that reads "Chris Loughren".

Chris Loughren
Market and Regulatory Affairs Advisor
Bruce Power

cc: Richard Horrobin, Vice-President, Bruce Power