

IESO Response to Bruce Power Comments/Observations

Bruce Power Comments and Observations

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 remains as to the true cost of exports of the transmission system.

IESO Response

We believe that Bruce Power's concern is that the ETS design and rate(s) which will be studied are not the result of a full cost of service study; accordingly, any ensuing ETS design and rate that may be proposed in this regard should not be construed as being "appropriate" or "efficient".

As discussed at the first stakeholder session on January 22, 2009, the IESO will not attempt to duplicate the Ontario Energy Board (the "Board") transmission rate review and approval processes nor would this be appropriate. The IESO noted that three ETS design options and various rate scenarios will be reviewed as part of the study—one of which is based on current and projected cost of providing transmission service from network assets (i.e., the ETS design and rate that that will be modelled under Option 2 will be based on the average cost of providing network transmission service). In addition, transactional costs (i.e., applicable uplifts) that are associated with facilitating export and wheel-through will also be taken into consideration. Accordingly, the cost of service applicable to export and wheel-through transactions will be considered under Option 2.

The appropriateness of the three options will be determined based on the impact of each option on four key parameters: HOEP, export and import volumes, export revenues and market efficiency. Further, any change to the ETS rate will have to be reviewed and approved by the Board as part of its provincial uniform transmission rate review process.

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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. This proposal is based in part on the assertion that most surrounding jurisdictions have peak and off-peak rates for export transmission service.

IESO Response

Due to the complexity, cost and time required to undertake a study of additional multifaceted ETS design and rate scenarios, this study will be limited to a review of the three ETS design options and rate scenarios discussed at the stakeholder meeting. We note that in the two jurisdictions (i.e., PJM and MISO) where export and wheel-through transmission service is available on a time-of-use basis, this form of service is only available on a short-term basis (i.e., weekly, daily and/or hourly basis). It was discussed and endorsed by stakeholders at the stakeholder meeting on January 22, 2009 that, for the purpose of undertaking an appropriate and comparative analysis, the IESO should adopt and use the long-term (i.e., annual) firm transmission rate for export and wheel-through service applicable to each jurisdiction.

The IESO appreciates stakeholders concern regarding the need to optimize the use of Surplus Base-load Generation (SBG) resource. We note however that there are potentially numerous ways of addressing this issue. Also, it is also worthwhile noting that this issue is currently under reviewed by IESO working group SE-57. http://www.ieso.ca/imoweb/consult/consult_se57.asp

In terms of the current ETS study, the IESO will modify the scope of the study to enable us to gain greater insight with respect to any material correlation that may exist between export transmission rates and SBG. We believe this information could also help to inform the discussion in SE-57.

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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.

IESO Response

The IESO agrees that it is important for stakeholders have a thorough understanding of the inputs and assumptions which forms the basis of the study and analysis. Accordingly, the IESO will, to the extent possible, make public any non-confidential data and assumptions used in the model, as well as information that will not prejudice the competitive position of any market participant or interfere with known contractual or other negotiations involving participants.