

July 13, 2009

TO : IESO – Export Transmission Service Tariff Study (SE-78)

RE: Export Transmission Service Tariff Meeting

Analysis/Model concerns:

The four 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 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.

- The model does not properly shape generating units and is thus giving inaccurate results/forecasts.
- The model's results show the exact opposite of what the real market results have been (SBG events are forecasted during winter and summer and none during spring). This is the exact opposite of real events and could render the analysis/model irrelevant. We do agree that the explanation of some of the past SBG "can" happen in the summer months as the example given was a holiday, but we do not forecast SBG to occur most/all of the time in the summer or winter and none in the spring; the results are clearly incorrect.
- SBG study does not look into positive effects of exports (as they would clearly have a positive impact on resolving these issues).
- Why does the model show more exports to HQ on-peak rather than off-peak (we would assume more exports off-peak than on peak as on all other interties HQ exports on-peak and imports off-peak).
- We have not been given any information about internal studies into reliability and transmission issues.
- Bidding behavior is not consistent over time and excluding that may skew the results.
- Not considering transmission constraints will skew results (actual flows, constraints, limitations, outages)
- NEEM's model "flattens" prices: on-peak low and off-peak high. "flattening" of prices effected by the assumption that outages/dispatches are all perfectly anticipated/implemented/dispatched. This will decrease the benefits of imports and exports for supply/demand balancing as in real events nothing happens perfectly.
- 2009 gas price of \$5, huge economic changes since initial price set for model. How will a more accurate gas price affect results?
- Were FTR auction values included in the model? (If not, FTR auction prices would inevitably increase for all models reducing export fees and would be reduced for models that increase



export fees. This will reduce the surplus in options with increased fees and increase the surplus in models with decreased export fees). This value will also offset some of the reductions in tariffs collected for transmission providers. (high export fees reduce otherwise economic transactions from occurring and decrease global market efficiency)

BEMI's Conclusions:

BEMI agrees that if there is no chance of negotiating a reciprocal elimination of export fees then we can conclude that Option #3 – Scenario 1 can be eliminated from our list of available options.

BEMI agrees that to charge more than the cost of service for transmission could be against a FERC mandate, so reciprocal fee treatment in Option #3 – Scenario 2 can be eliminated from our list of available options.

Since emissions are well below cap for all options, we can conclude that this is not a major issue that should determine which option is optimal.

BEMI's Recommendation:

BEMI believes on a high level evaluation that market efficiency will be achieved through the reduction (or better) the elimination of transaction fees. As predicted, the model (even though inaccurate, we believe it will always produce a higher total surplus when transaction fees are eliminated; as basic economic theory on market efficiency predicts) shows that the surplus is greatest for Option #4 – Scenario 1 (Option #4 – Scenario 2 had the second highest surplus). Option #2 had the largest negative surplus and basic economic principals would predict that this will decrease market efficiency.

As both Scenario's in Option #4 are the only ones that increase net exports, we believe that they will have additional benefits for the forecasted SBG events and reliability benefits; as well as, they will increase global market efficiency through dispatching the least cost generator across interconnected markets.

Surplus Results Analysis:

- Option #2 shows a transfer of surplus from producers to consumers of: -\$271 million from producers and +\$256 million for consumers for 2010 and -\$284 million from producers and +\$246 million for consumers for 2015. This creates a transfer difference of \$527 million for 2010 and \$530 million for 2015; although the total market surplus is only (-\$15 million) for 2010 and (-\$38 million) for 2015.
- Option #4 – Scenario 1 shows a transfer of surplus from consumers to producers of: -\$47 million from consumers and +\$47 million for producers for 2010 and -\$52 million from consumers and +\$60 million for producers for 2015. This creates a transfer difference of \$94 million for 2010 and \$112 million for 2015; although the total market surplus is only \$0 for 2010 and +\$8 million for 2015.
- Option #4 – Scenario 2 shows a transfer of surplus from consumers to producers of: -\$33 million from consumers and +\$30 million for producers for 2010 and -\$6 million from consumers and +\$6 million for producers for 2015. This creates a transfer difference of \$63

million for 2010 and \$12 million for 2015; although the total market surplus is only -\$2 million for 2010 and +\$1 million for 2015.

****as mentioned earlier: both Options #4 will have an increased surplus when FTR values are included and Option #2 will have a decreased surplus****

As you can see not only does Option #4 produce the only positive total surplus, it has the smallest transfer of surplus from one group to another. An extremely large transfer of surplus would seem unfair for whichever stakeholder who is negatively affected the most. Although Option #4 – Scenario 2 has the smallest magnitude of transfer from one group to another, we believe that Option #4 – Scenario 1 is the best overall option as it has the highest total surplus while maintaining a small transfer differential.

Regardless of future results, we believe that as markets evolve we see that market efficiency is achieved through the reduction of transaction fees and to move away from the inevitable solution would not make sense (as we see the continued effort to reduce transaction fees and increase global market efficiency). This is also a view held by OEB in RP-1999-0044 section 3.8.20; *“The Board considers that the Government’s long-term objective of reducing energy costs through competition can be served by the development of larger, open power markets where trade can take place with the minimum of impediment. In this regard, the Board appreciates the recommendation by the Market Design Committee that EWT transactions should be subject to only incremental transaction-specific charges and no contribution to sunk costs should be levied”*, which supports the idea of no export tariff in able to encourage market efficiency; as well, since load has first priority to the transmission grid (exports are cut first for reliability) then sunk or fixed network costs would be born by the load even if there are no exports. Exports are a marginal transaction and only occur when economically feasible and should not incur any fixed or sunk costs.

We believe that a model that predicts more closely real market events (or this model re-run with new assumptions that allow NEEM to better predict current market conditions) would be more useful for analysis, but we believe inevitably all results will show that the reduction of transaction fees and a move toward a more efficient global marketplace will benefit the market as a whole the most in the future; as well as, the IESO should continue to strive towards an efficient market regardless of the co-operation of other adjoining control areas decisions. BEMI supports Option #4-1, but Option #4-2 is an improvement from status quo and is a small step towards the many benefits/goals listed above. Any other option would be contrary to market development/efficiency and would result in negative surplus (so other than Options #4, keeping the status quo is the only other option that does not negatively impact many participants and the market as a whole).

Sincerely,

Darryl Kaiman

Brookfield Renewable Power