

## Minutes of Meeting

<b>Date held:</b> January 22, 2009	<b>Time held:</b> 9:00 am – 12:30 pm	<b>Location held:</b> Minto
<b>Invited/Attended</b>	<b>Company Name</b>	<b>Attendance Status</b> (A)ttended; (R)egrets; (S)ubstitute
Bellavance, Erik	Hydro-Quebec	A
Clark, Wayne	SanZOE Consulting Inc.	A
Cormier, Pascal	Brookfield Energy Marketing	Teleconference
Gell, Richard	Ontario Power Generation	A
Girvan, Julie	Consumers Council of Canada	Teleconference
Hunt, Robert	Hunt Management Services	A
Kaiman, Darryl	Brookfield Energy Marketing	A
Kelly, Martin	Ontario Power Generation	A
Kerr, Paul	Shell Energy	A
Kuntz, Margaret	TransCanada Energy	A
Loughren, Chris	Bruce Power	A
Miles, Tony	Hydro One	A
Petrella, Tony	Ontario Power Generation	A
Burrell, Carl	IESO	A
Finkbeiner, Darren	IESO	A
Gibbs, Barclay	CRA International	A
Ingman, Nicholas	IESO	A
Lainis, Helen	IESO	A
Peerbocus, Nash	IESO	A
Springgay, Guy	IESO	A
Scribe: Helen Lainis ( <a href="mailto:helen.lainis@ieso.ca">helen.lainis@ieso.ca</a> ) Please report any corrections, additions or deletions e-mail to scribe.		

All meeting material is available on the IESO web site at:  
[http://www.ieso.ca/imoweb/consult/consult\\_se78.asp](http://www.ieso.ca/imoweb/consult/consult_se78.asp).

### Document output of each agenda item below:

#### **Item 1 Introductions and Review of Agenda**

Guy Springgay welcomed the attendees and introduced them and their roles in their organizations. He proceeded to provide an overview of the IESO's stakeholder engagement principles and the terms of reference for the working group. He reviewed the agenda and went over the stakeholder engagement

schedule and explained where we are in the plan. No changes were made to the stakeholder engagement schedule.

## **Item 2 Overview of IESO's Role in the Export Transmission Service Tariff (ETS) Study and Planned Deliverables**

Nicholas Ingman thanked the working group for their participation and for their written comments on the stakeholder engagement plan. The IESO's responses to the written comments were posted on our public website on Monday, January 19th, 2009.

He proceeded to explain that as the system and market operator, the IESO was seen as being the appropriate organization to enter into discussions with neighbouring ISOs in order to negotiate possible arrangements for reciprocal treatment of the export tariff, to look at the potential impacts of various ETS design and rate options (i.e., Status Quo, Equivalent Average Network Cost, and Reciprocal Tariff Treatment) on different aspects of the market, such as HOEP, export and wheel-through volumes, export revenues and market efficiency. In undertaking the study, the IESO was careful to employ an approach and methodology that would be able to, at a reasonable cost and flexibility, provide a robust quantitative analysis of the various options under consideration. The IESO would also consider supplementing the quantitative analysis with a qualitative assessment of various others impacts such as reliability and cross border emissions, if deemed beneficial to stakeholders.

He further explained that the scope of the study was to take into account the 3 options identified in Hydro One's last rate proceeding. He noted that the IESO will not be looking at any other different ETS tariff design and rate options as part of this study and hoped that the results of the review and the IESO's recommendation will assist intervenors in their discussions before the OEB with respect to other related issues such as transmission cost allocation. He also noted that, although cross border emissions were not specifically identified as a proposed evaluation parameter for the ETS tariff study it has been raised as a potential issue. To address this concern it may be beneficial to better understand what impact, if any, the various options will have on emissions and that this can be gauged through using certain outputs from the model. The intent is to provide a report of the quantitative and qualitative analysis of the potential impacts of the options on HOEP, export and import volumes, ETS revenues and market efficiency and IESO recommendations, as well as the results of discussions with neighbouring jurisdictions to the OEB by no later than June 1, 2009.

Participants provided the following clarifications:

- In its Decision and Order for Hydro One's last rate proceeding, the OEB did not take a position regarding the elimination of the Export Transmission Service Tariff. Rather, it adopted the settlement agreement undertaking agreed upon by the intervenors.
- The current tariff at \$1/MWh place is an interim tariff and was not intended to cover Hydro One's use of assets but was designed to leave Hydro One harmless. The intent of the settlement agreement undertaking is to propose a permanent tariff.

Clarification was also sought as to whether the stakeholder plan implied that the ultimate goal is the elimination of the tariff, and whether that meant on one side or both sides of the interface with Ontario. The IESO responded that, consistent with the Settlement Agreement and Settlement Decision and Order, the aim is to consider and pursue arrangements for reciprocal treatment of the ETS tariff, with an aim towards mutual elimination of the tariffs. Elimination of the ETS tariff would only be considered on a mutual basis.

A question was asked if the IESO would also be comparing uplifts associated with exports in each of the respective markets. The IESO replied it was not specifically planning to compare uplifts; however, this will be taken into account as part of the modeling exercise.

### **Item 3 Update on Preliminary Discussions with Neighbouring Jurisdictions**

Darren Finkbeiner highlighted the hurdles in negotiating reciprocal agreements such as defining the various terms for transmission service and degree of willingness of the other system operators to engage in this discussion. He went on to explain that the focus of the discussions was with our direct neighbours. To date, NYISO has been the most receptive and has also engaged in a similar arrangement with New England ISO. Trans-Energie, the system operator in Quebec, has expressed no interest at this point in time. Similarly, MISO have not been receptive to changing their tariff.

Participants recommended that we look at the reciprocal arrangement that have taken place between PJM and MISO and NYISO and New England and see what lessons we can learn from their experiences in negotiating and implementing arrangements to eliminate rate pancaking.

### **Item 4 Scope of ETS Design and Rate Options Review and Analysis**

Carl Burrell reviewed the 3 forms of Export Transmission Service Tariff design and rate options that will be assessed. The thrust of the quantitative analysis is to assess and analyze the potential impact of the ETS design and rate(s) options with respect to their potential impact on HOEP, export revenues, export and import volumes and market efficiency, as measured by total consumer and producer surplus. He also emphasized that the IESO will not attempt to optimize any of these parameters, rather, we are attempting to establish the potential impact on each of these parameters. In proposing the “appropriate” Export Transmission Service Tariff design and rate for Ontario, the IESO will attempt to strike a balance between simplicity of implementation, fairness and equity, degree to which it enhances market efficiency and consistency with rates in neighbouring markets. The IESO will seek additional stakeholder input to determine the relative weighting of the selection criteria.

Nash Peerbocus explained the IESO’s use of Cost-Benefit analysis to assess the impacts. Each option considered will be assessed for years 2010 and 2015 against the following parameters: HOEP, export and import volumes, export revenues and market efficiency. He further explained how market efficiency is

defined in this regard (i.e., consumer and producer surplus). He elaborated on the three options, including option 1 (current tariff) as the baseline scenario and option 3 (elimination of tariff) as setting the upper bound on estimated impacts.

With respect to questions raised on the parameters, the IESO clarified:

- market efficiency impact test will be limited to Ontario;
- consumer surplus entails all segments withdrawing energy from the IESO-controlled grid, including exports;
- the model internalises congestion impacts, but will not capture Financial Transmission Rights (FTR) revenue streams. Upon further discussion with attendees, capturing FTRs was deemed not to be critical/material;
- the assessment is not intended to maximize the transmitters' revenues or any other of the parameters;
- the physical trade of volume is considered in the assessment, not the financial; and
- the IESO will draw upon the information provided in the Rudden Study which was filed by Hydro One in its last rate proceeding; the study has taken into account the reciprocal agreement between PJM and MISO; the IESO will not be updating the Rudden Study. A stakeholder noted that the numbers used should be the most up to date as possible as the study is a few years old. The Rudden Study will be posted on the IESO's public website for reference. (This can now be found on the IESO web site at: [http://www.ieso.ca/imoweb/pubs/consult/se78/se78-20090122-Review\\_of\\_Export\\_Tariff\\_in\\_Other\\_Jurisdictions.pdf](http://www.ieso.ca/imoweb/pubs/consult/se78/se78-20090122-Review_of_Export_Tariff_in_Other_Jurisdictions.pdf)).

One of the major concerns raised by the stakeholders is the issue of comparability. Given the varying types of transmission service such as firm, non-firm, annual, weekly, hourly, etc..., what would be the appropriate "apples to apples" comparison? Not only is service available on various terms, the basis for pricing also varies, with some jurisdictions, like NYISO and Ontario using energy flows and most other jurisdictions basing it on capacity. In addition, there are other transactions costs involved in an export and one must be consistent in whether you model the "all-in" costs of an export or not. Through discussion it was agreed that the equivalent annual firm transmission rate would be used for the analysis.

## **Item 5 Overview of Modeling Tool, and Quantitative and Qualitative Analyses**

Barclay Gibbs presented an overview of the CRA's North American Electricity and Environment Model (NEEM) which represents the US electric power system and portions of the Canadian system.

Highlights of the NEEM model included:

- forecasting of electricity prices, inter-regional transfers of energy and unit-level gross margins;
- minimizes the present value of dispatching generating units (fuel and variable O&M) costs over a time horizon;
- constraints ensure that limits on interregional power flows are not exceeded;
- uses annual firm transmission service;
- input data are primarily from public sources, e.g., transmission interface limits are derived from NERC regional and interregional studies;
- emissions are estimated for all units; and
- the year 2007 will be used to calibrate the model.

Participants asked about the source for the demand forecast and the IESO replied that it is using the demand forecast data from the Ontario Power Authority's (OPA) Integrated Power System Plan (IPSP) and is working with the OPA to reflect any revisions made to this forecast given the additional request to the plan by the Minister of Energy and Infrastructure. Stakeholders added a note of caution regarding adoption of the demand forecast used in the IPSP.

The IESO requested input from the stakeholders for the modeling of other potential and meaningful rate scenarios under Option 3 considering the current status of the discussions with neighbouring jurisdictions. The scenarios discussed at the meeting include:

- ETS design and rate of \$0/MWh on a reciprocal basis, consistent with the aim of the settlement agreement.
- ETS design and rate(s) which reflects mutual agreement for reciprocal treatment or which will attain reciprocal treatment of the ETS tariffs. For example, Ontario eliminates the ETS tariff on the IESO/NYISO interface, while changing the current Ontario ETS tariff to match rates in the other jurisdictions.

Participants also expressed that it would be beneficial to model PJM as an implied/virtual interface given the volume of trades between Ontario and PJM.

Another participant pointed out that there are potentially diverse benefits across users or diverse costs across areas and to consider modeling a different basis from the current allocation of transmission costs. The IESO noted that the issue pertaining to cost allocation (i.e., who should pay and how should the cost be allocated between the ratepayers) was not part of the scope of the study. The IESO noted that it is more appropriate that this issue be dealt with as part of the transmitter rate application and review.