

April 30^h, 2012

To: IESO, attn IJTSC April 12th meeting

Subject: MR-00393: Limiting Payments to Exports during Negative Prices

Brookfield appreciates the opportunity to provide comments on the IESO IJTSC April 12th presentation titled "*Export Settlement Treatment – Exports and Negative Prices*".

Background

The Brookfield Renewable Energy Group operates the renewable power generation platform of Brookfield Asset Management, a global alternative asset manager with approximately \$150 billion in assets under management. Brookfield's renewable energy portfolio is primarily hydroelectric and totals approximately 5,000 megawatts of installed capacity. Diversified across 67 river systems and 10 power markets in Canada, the United States and Brazil, the portfolio generates enough electricity from renewable resources to power two million homes on average each year. Brookfield also has an active energy trading and marketing business in multiple energy markets across North America including Ontario.

Please find below Brookfield's comments on the IESO's presentation at the IJTSC meeting held on April 12th, 2012.

Comments:

- IESO presented to meeting participants an aggressive market rule approval process which included a tight timeline with a Fall 2012 implementation. We are of the view that this tight timeline does not provide sufficient time for stakeholders to analyse the IESO's proposal;
- In its presentation the IESO stated that all generators in Ontario, apart from a share of OPG generation, are 100% protected from HOEP due to long term contracts. Based on Brookfield's experience, we can assert that this is not true. There are OPA contracts that do not completely protect generators against negative prices. We suggest that IESO review its assumptions in order to ensure that it considers a complete and accurate set of facts in establishing the economic impact of the proposed market rules;
- No material economic analysis was shared with stakeholders. Furthermore, no analysis on the impact of the proposed market rule changes on the level of liquidity on the intertie trading on a short, medium and long term basis was provided;
- IESO did not assess the impact of the proposed changes on international trade agreements (e.g. NAFTA) or the impact of the proposed changes on Canadian and U.S. neighbouring electricity markets;

- No analysis was performed by IESO on the potential changes in the trading activities of energy traders and marketers as a result of the proposed market rule changes;
- No analysis was done by IESO on the effect that the proposed market rule changes would have on FTR value. It is important that the IESO assess the impact of the proposed market rule changes on the FTR market ;
- IESO's historical analysis shows that negative export prices negatively impacted Ontario ratepayers to the tune of \$17M for January, 2012 and \$4M for February, 2012. However, these figures are relatively small when compared with the Ontario Electricity market size of \$15B. It is important that the calculation behind these figures takes into account revenue to the IESO coming from generators that are not fully protected by contract when prices are negative. The IESO also have to take in account the impact of the level of exports on IESO uplifts and exports transmission service revenues.
- IESO stated that "wheel through" will not be affected by the proposed market rule changes. This could potentially mean that marketers doing "wheel through" transactions would be favoured over exports coming from Ontario generators;
- IESO stated that with the new 2400MW of flexibility offered by Bruce Power, no exports would be required to balance the grid. Also, IESO used the hypothesis that it would be cheaper to reduce native generation vs. negative price exports during SBG periods. We strongly suggest that proper study and analysis should be completed and shared with stakeholders before IESO accepts this as a definitive conclusion. Brookfield also questions the IESO hypothesis that Bruce Power's new flexibility would be free of charge;
- IESO stated that ratepayer interests are more important than market efficiency when evaluating the proposed market rules change. One of the express purposes of the *Electricity Restructuring Act, 2004*, (the "Act") (which created the IESO) is "to promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity." Brookfield is of the view that market efficiency should not be opposed to ratepayer interests. An efficient market will inevitably result in higher rate saving for ratepayers. As stated in the Act, IESO has to provide generators, retailers and consumers with non-discriminatory access to transmission systems in Ontario. Based on the purposes of the IESO as set forth in the Act, we assume that IESO should not favour the interest of one category of market participant over another. A non discriminatory system will benefit every market participant including ratepayers.
- The IESO's own Market Roadmap has the stated goal of increasing interconnectivity with neighboring jurisdictions. This rule change does exactly the opposite, creating less alignment with best practices in neighboring control areas.

Conclusions

Any market rule changes require an evaluation of the short, medium and long term impacts on ratepayers. Ontario is interconnected with several markets. Ontario sometimes relies on imports from these markets in order to meet its demand. Before imposing market rule changes that would impose barriers to trade with Ontario neighbours, IESO must perform a complete analysis. Short term benefits shall not overcome medium and long term costs for the ratepayers. Brookfield is of the view that market rule changes should not reduce the numbers of marketers engaged in intertie trading. More competition on the intertie means lower energy prices when Ontario needs them the most.

Regards,



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