We appreciate the opportunity to participate in the Independent Electricity System Operator's (IESO) stakeholder engagement on the TRCA disbursement methodology. This letter sets out MAG's comments arising out of the MDAG session on January 21, 2020.

## 1. Effective Date

The IESO's decision to delay the implementation date to the TRCA disbursement in December 2020 is helpful, but it does not fully address the retroactive effect of the proposed new rule.

When the IESO TRCA proposal was unveiled on December 4, 2019, TRs had already been sold for the period up to December 2020. This is an unfair market rule change with a retroactive effect on TRs that were already sold. If IESO wants to move forward with the proposed rule change, it should do so in a way that only applies to TRs from January 1, 2021 and forward.

MAG continues to believe that the method for disbursing the TRCA should continue without any changes. However, if the IESO decides to proceed with the proposed change, MAG believes that the new method should not be applied until the TRCA disbursement in November 2021.

## 2. Comparison with US FTR markets

MAG appreciates that the IESO took the time to provide a response to MAG's comments comparing the IESO's proposal to the procedures followed in US markets. MAG would like to comment on the IESO's Response in order to hopefully provide the IESO with additional context.

MAG continues to believe that the IESO proposal is different from the way most US FTR markets treat the distribution of transmission surpluses.

**MISO :**

> IESO's RESPONSE document page 12:
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> *"The IESO has reviewed the MISO Tariff and confirms that exporters and importers in MISO can be eligible to receive a share of the surplus if they are longer-term transmission customers. In MISO, longer-term transmission customers that pre-pay for transmission service regardless of whether or not they are scheduled to use the transmission system can qualify for a share of the surplus. However, hourly users of transmission service in MISO, which are similar to the exporters in Ontario do not receive an allocation of the surplus."*

Exporters and importers do not have the option to buy long-term transmission in IESO. Since long-term transmission is not available in the IESO, it is unreasonable to compare the method used in MISO to disburse surplus to long-term transmission customers to the method used to disburse surplus to exporters in IESO.

In MISO exporters at least have the option of buying long-term transmission that will allow them to be eligible to receive FTR surpluses. The IESO's proposed rule change would completely eliminate that option in Ontario.

In addition, in MISO energy traders who import are nearly always entitled to receive a share of the FTR surplus on their imports because all importers receive a long-term free transmission import number when they register in the MISO, and are all longer-term transmission customers who are eligible to receive a share of the surplus.

**NYISO :**

> IESO's RESPONSE document page 12:
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> *"In Ontario, the IESO is responsible for determining the TRCA surplus allocation, but it is not responsible for setting the PTS or ETS charges. The OEB is responsible for setting the ETS rate and discussions on lowering the rate should be held in that forum. "*

With respect, the IESO's Response does not address the point of MAG's comment. The relevant point is that exporters from the NYISO receive a refund of congestion surpluses.

In the NYISO, the market will transfer TCC congestion surpluses to transmission owners who in turn apply the surplus to reduce the rates paid by transmission users. The fact that the NYISO provides a refund to transmission owners who then adjust the rates for transmission service does not change the fact that the refund is being provided to exporters.

In Ontario, the IESO (not the OEB) is currently using the TRCA disbursement to provide a similar refund (not a subsidy) to exporters who paid the ETS rates and also paid most of the Intertie Congestion Rent and paid for the Transmission Rights that resulted in the creation of the TRCA.

The IESO's proposed rule change would result in the exporters' share of the refund (that was partly created with payments from the exporters) being 100% diverted to load customers.

**ISO-NE :**

> IESO's RESPONSE document page 13:
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> *"The IESO clarifies that the starting point for congestion allocation in ISO-NE is to allocate rights to congestion revenues to loads and entities that pay for transmission upgrades and not to importers/exporters. Any surplus is disbursed after load is paid for its right to congestion revenues and TR holders are made whole. By comparison, in Ontario, TR auction revenues do not go directly to loads. If congestion rents collected are less than TR payouts, TR auction revenues are used to cover TR payouts then disbursed to both exporters and loads. "*

MAG agrees that every market disburses congestion allocations to loads and entities up to their congestion costs. Surpluses are disbursed after loads are paid their right to congestion revenues and FTR holders are made whole. However, loads pay for most of the congestion rents in the US markets, which is not the case in the IESO where exporters and importers pay for congestion rents on the interties. This difference must not be overlooked.

ISO-NE pays the surplus to exporters and importers if they paid congestion in the first place. The IESO's proposal goes in a different way by preventing refunds to certain market participants (exporters) who paid for the congestion.

## 3. Discussion on Exporters who stop trading

MAG would like to comment on slide 25 of the last presentation. On that slide, the IESO states:

> *If exporters stopped trading (from lack of profitable export opportunities), they would not pay any ETS charges and not be responsible for any transmission costs.*

The IESO's rationale for the rule change does not recognize that exporters and importers are responsible for making most of the payments that create the TRCA. Exports and imports generate the intertie congestion and are responsible for making the payments that fund the TRCA. If exporters and importers stopped trading (for any reason), there would be no congestion on the interties, and, over time, there would be no revenue from the TR auction, and no TRCA surplus to distribute to anyone.

The payment of congestion costs was not intended to fund the costs of the transmission system. The fact that an individual exporter can choose to stop trading and no longer be responsible for paying any future transmission cost is not a good reason for refunding 100% of historical congestion costs paid in the past by importers and exporters to the historical loads who did not pay the historical congestion costs on the interties.

Moreover, although loads as a group may be "ultimately responsible" for the costs of the transmission system, particular loads are free to leave the system at any time (by ceasing to take service). If a load customer was to cease taking electricity service it also would have no responsibility for paying future transmission costs, just like an exporter who stops exporting.

The purpose of congestion costs is to allocate a scarce commodity (transmission capacity) to the party who is willing to pay the most for it. If there is a surplus after that allocation has been made, it is only fair that the surplus be returned to the parties who created the surplus in the past, regardless of whether such parties continue to be IESO market participants in the future.

## 4. TRCA disbursement is a refund, not a subsidy

> Market Rule, Chapter 8, Section 4.18.2
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> *"Subject to section 4.18.3, the IESO Board may, at such times as it determines appropriate, authorize the debit of funds from the TR clearing account* ***for the purpose of using those funds to offset the transmission services charges*** *referred to in section 3.6.3 of Chapter 9* [which references the disbursement formula]*."*
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> (emphasis added)

The TRCA disbursement currently received by exporters is not a subsidy; it is a refund that is intended to offset transmission service charges **paid in the past**. Pursuant to section 4.7 of Chapter 9 of the Market Rules it is paid based on the quantity of energy withdrawn by the market participant during previous billing period.

Market participants, including internal loads and exporters, pay for transmission charges based on the PTS and ETS rates respectively that are set by the OEB. Rule 4.18.2 in Chapter 8 and Rule 4.7 of Chapter 9 make it clear that the purpose of TRCA disbursement is to reduce cost of the transmission charges paid in the past. Both load customers and export customers have paid transmission service charges, and both sets of customers should be entitled to a share of the refund. It has the same implication for PTS and ETS rate payers. In both cases, the objective is to offset transmission service charges. MAG does not understand how the IESO can use the word subsidy when it is a refund based on a surplus in the TRCA.

## RECOMMENDATION

MAG Energy Solutions recommends the status quo, but the TRCA disbursements to exporters should be limited to the ETS charge rate.