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May 5<sup>th</sup>, 2020

Ms. Barbara Ellard, Director – Markets and Procurements  
Independent Electricity System Operator  
120 Adelaide St. W  
Toronto, ON  
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Dear Barbara:

**RE: Transmission Rights Clearing Account (“TRCA”) Disbursement Methodology Changes**

APPrO and the Coalition of Ontario Producers and Exporters continue to participate in the Independent Electricity System Operator’s (“IESO”) stakeholder engagement on the TRCA disbursement methodology and the TR Market Review. This is intended to provide formal comments in response to the Market Development Advisory Group session on April 2, 2020.

We support the IESO’s ongoing review of its decisions on the TRCA disbursement and appreciate the IESO’s willingness to revisit its decisions after receiving stakeholder comments. However, we remain concerned that the proposed changes to the TRCA disbursement methodology are inconsistent with the purposes of the *Electricity Act* and unjustly discriminatory. We provide further comments to respond to the IESO’s new positions on this issue.

We continue to oppose implementing these changes without enough notice, but we do not repeat those earlier comments below.

We support the IESO’s review of the TR Market because there are changes that could make it more efficient. We also support the IESO’s recent decision to permit the assignment of TRs for settlement purposes and we believe this will also improve the market. We provide comments on the IESO’s proposed TR market review.

**Comments on the TRCA Disbursement Methodology**

The IESO should maintain the status quo TRCA disbursement methodology

The IESO has changed its proposed TRCA disbursement methodology but the IESO supports the new proposal on the same basis as its original proposal.<sup>1</sup> First, the IESO states that the proposal results in more efficient outcomes. Second, IESO states that it results in more equitable outcomes. We continue to question the validity of these analyses when the IESO ignores rate Export Transmission Service (“ETS”) and how congestion rents are generated.

*Efficiency*

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<sup>1</sup> MDAG Presentation of April 2, 2020, slide 89.

We believe that it is appropriate to consider the impact of rate ETS on efficient export decisions, and that including rate ETS in the efficiency analysis would support maintaining the status quo.

Including rate ETS would be consistent with the IESO's and Brattle's approach in other stakeholder engagements, such as the Energy Payments for Economic Activation of Demand Response Resources engagement. In that engagement, the IESO has considered the impacts of Global Adjustment even though it is set out in legislation and not within the IESO's control.<sup>2</sup>

The IESO has taken the opposite approach in assessing the TRCA disbursements because the IESO believes that it cannot consider rate ETS because it is set by the Ontario Energy Board ("OEB") and therefore is outside the IESO's control. We continue to believe this is not an appropriate approach.

Maintaining the status quo leads to more efficient export decisions because economically efficient exports are being deterred by rate ETS, and the TRCA disbursements to exporters offset part, but not all, of this disincentive.

#### *Equity*

The IESO's assessment of equity only considers how transmission costs of the entire system<sup>3</sup> and does not consider how congestion rents are generated nor how transmission costs are allocated.

Exporters have paid on the order of \$1 billion in congestion rents and rate ETS charges over the last 5 years, and about 90% of those payments have offset costs that would otherwise be borne by Ontario consumers. Less than 10% of those payments have been returned to exporters through the TRCA disbursement.

A different analysis of fairness considers whether benefits follow costs. Consumers are not paying for the costs of the intertie facilities and are not paying the congestion rents on the intertie facilities. Yet they receive 90% of those benefits. Through this lens, it could be argued that exporters are entitled to all the TRCA disbursements because benefits should follow costs.

We are not advocating for this outcome, but this highlights the challenges in framing a discussion about fairness or equity. It is easy to develop narrow frameworks along a singular facet of an issue to support a desired outcome. The IESO's equity arguments are only one view.

#### Alternatively, the IESO should return all congestion rents to transmitters

The goal of the TRCA disbursements is to offset transmission charges paid by internal load and exporters. This is a question of rate design that would be best addressed by the OEB.

The IESO could return congestion rents to transmitters so that those amounts could be incorporated into the Uniform Transmission Rates ("UTR") for market participants. The IESO has not considered this option.

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<sup>2</sup> Energy Payments for Economic Activation of Demand Response Resources, February 13, 2020, slides 12, and 40.

<sup>3</sup> MDAG Presentation of April 2, 2020, slide 89.

There are many advantages to this option over the IESO's proposal:

1. Forecasts of congestion rents could be incorporated directly into the transmission rates and provide more certainty to all market participants.
2. The OEB would be able to assess the impacts of rate ETS, which the IESO believes it cannot consider because the OEB sets rate ETS.
3. This would be consistent with the approach in some U.S. jurisdictions.
4. This would accommodate the internal congestion rents that will exist after Market Renewal, which should also offset transmission charges.
5. This would allow the IESO to delay implementation to avoid further harming TR market participants due to the lack of notice provided about the proposed changes.

The IESO should consider this option before taking its proposal to the Technical Panel.

#### The IESO should adjust its proposal

The IESO's proposed market rule changes implement a TRCA disbursement methodology that is unjustly discriminatory to exporters and certain load customers, including Class B consumers.

The IESO should adjust its proposal to address these issues.

The IESO has proposed to share all congestion rents on the interties among exporters and internal load in proportion to the transmission costs paid by each group. However, the IESO is planning to allocate all internal congestion rents to internal loads after the Market Renewal Program is implemented.<sup>4</sup> As proposed, this appears to be unjustly discriminatory.

Table 1 - IESO Proposal after Market Renewal

Congestion Rents	Allocation to loads	Allocation to exporters
Intertie	Proportional to Tx charges (98%)	Proportional to Tx charges (2%)
Internal	All (100%)	None (0%)

The IESO should be clear that it intends to share all congestion rents on a non-discriminatory basis – both before and after the Market Renewal Program is implemented.

The IESO has also proposed to allocate TRCA disbursements among consumers based on volumes consumed rather than transmission charges paid.<sup>5</sup> This creates the same inequity among consumers that the IESO identified between exporters and consumers.

Consumers with flatter demand shapes will receive a disproportionate share of TRCA disbursements based on the transmission costs paid. This will harm consumers such as Class B

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<sup>4</sup> The IESO has not proposed changes to section 3.6.2 of Chapter 9 to implement its post-MRP proposal. The current section 3.6.2 of Chapter 9 indicates that the TRCA would be credited with internal congestion rents once locational pricing is implemented as part of MRP.

<sup>5</sup> MDAG Presentation of April 2, 2020, slide 94.

customers that pay more transmission charges per unit of energy consumed because they have more variability in their demand.

The IESO should adjust its proposed rule amendments to address these issues before seeking approval to post from the Technical Panel.

#### **TR Market Review**

We support the proposed TR Market Review and support the IESO's decision to conduct it outside of MDAG. Few MDAG members are interested in the TR Market while there are many non-MDAG members that are interested in the TR Market. It unnecessary to provide updates to MDAG on the TR Market review.

Stage 1 may require more time than allocated for certain aspects because there may be diverging views on issues such as the TR Market's objectives, the methodology being used to assess the TR Market's value, or the range of system conditions that will be considered when assessing the TR Market's value. We recommend adding flexibility into the IESO's schedule.

For Stage 2, we would recommend the following additional near-term changes for the IESO and stakeholders to consider:

1. More laminations for bids
2. Sell back TRs in subsequent auctions (as contemplated in section 4.1.2 of Chapter 8 of the Market Rules)
3. Buy and sell TRs for balance of a period

Some of these changes could be advanced without significant analysis, such as adding more laminations for bids into the TR market.

Thank you for inviting comments on the TRCA disbursement methodology and TR market review. Please contact me if you have any questions about the foregoing.

Sincerely,



David Butters  
President and CEO

And the Coalition of Ontario Producers and Exporters