

November 2, 2010

Ontario Energy Board  
2300 Yonge Street  
P.O. Box 2319  
Suite 2700  
Toronto ON M4P 1E4

**Attention: Board Secretary**

Dear Sirs:

Re: A review of an application filed by Hydro One Networks Inc. for an order or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2011 and 2012.  
Board File: EB-2010-0002

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Attached please find submissions which are being filed on behalf of Bruce Power Inc.

Sincerely,



George Vegh  
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c: All Intervenors on record

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998* S.O. 1998, c. 15 (Schedule B) (the “OEB Act”);

**AND IN THE MATTER OF** a review of an application filed by Hydro One Networks Inc. for an order or orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2011 and 2012.

**SUBMISSIONS OF BRUCE POWER**

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## **Export Transmission Service (“ETS”) Tariff**

### **Introduction and Summary**

1. These submissions are made by Bruce Power. Bruce Power operates the Bruce Nuclear Generating Station, which produces baseload power. As indicated below, nuclear generators, and other generators who produce baseload power are adversely impacted by increases in surplus baseload generation. As demonstrated by the IESO, surplus baseload generation also has significant negative impacts on system reliability.
2. For the reasons set out below, Bruce Power submits that the ETS Tariff should not be increased because the cost of doing so outweighs the benefits. In short:
  - The main cost of increasing the ETS is that it will increase the cost of exporting power from Ontario and therefore lead to increased instances of surplus baseload generation. This results in reduced operability of the system and increased operational challenges on baseload generators. As a result, the IESO, which is responsible for addressing operability, recommends that the ETS remain unchanged.
  - The benefits of increasing the ETS are uncertain.
    - In terms of impact on customers, increasing the ETS will likely lead to a lower Hourly Ontario Energy Price (“HOEP”), but lowering the HOEP leads to increasing Global Adjustment (“GA”). The net impact on consumers of lowering the HOEP is therefore uncertain.
    - In terms of fairness, although the current ETS results in exporters paying less than the average cost of transmission services, there is no evidence or analysis to suggest that this leads to an unjust or unreasonable rate. The cost of the transmission network has been incurred to serve domestic load, not exporters. As a result, under the principles of cost causality, it is appropriate that exporters pay, on average, less in rates than domestic load customers.
3. Bruce Power’s detailed submissions are set out below.

### **The Issue in this Proceeding**

4. The issue respecting the ETS Tariff is whether Hydro One responded appropriately to the Board’s direction in EB-2006-0501. In that decision, the Board approved the maintenance of a \$1 MWh ETS Tariff and endorsed further study on this issue by the

IESO. The Board noted that “any change to the ETS charge must be made through a Board rates process.”<sup>1</sup>

5. In accordance with the decision, the IESO conducted its study and concluded that, in its opinion, the ETS should not change. Consistent with the IESO’s recommendation, Hydro One is not proposing a change to the ETS Tariff in this application.

#### **The IESO’s Recommendation**

6. The IESO made its recommendation on the grounds that any increase to the ETS Tariff will, by definition, increase the cost of exporting power from Ontario. Ontario relies upon exports of power to provide operational flexibility to the system. The need for operational flexibility is particularly acute in the near term in light of decreased demand for electricity and the growth in baseload generation capacity as a result of the *Green Energy and Green Economy Act, 2009*. The combined effect of these factors will increase the instances of surplus baseload generation (“SBG”) which will continue to adversely affect the baseload nuclear resources of Bruce Power.
7. Exporting power is a way to mitigate SBG and increase system flexibility. It does this in two ways. First, it removes the amount of baseload generation that is excess to the province’s demand, thereby keeping supply and demand in balance. Second, by exports increasing demand, the dispatch system gains access to more flexible sources of supply. Thus, by exporting baseload power, flexible supply (such as gas) becomes the marginal resource and is capable of responding to short term changes in demand. As Mr. Finkbinder stated, “an export gets you out of the surplus range of supply and into the more flexible range of supply. And that is really where exports provide that benefit to manage surplus.”<sup>2</sup>
8. From a system perspective, the main consequence of increasing the ETS tariff and driving an increase in SBG is that it creates an electricity system that is more difficult to manage for the IESO. This is a significant problem. As the IESO stated in its May 25,

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<sup>1</sup> EB-2006-0501, Settlement Proposal Decision, April 18, 2007, p. 2.

<sup>2</sup> Transcript, Vol. 9, p. 76.

2009 18-Month Outlook, "Because of the impact surplus baseload generation can have on system and market operations, proper management of these occasions is a top priority for the IESO."<sup>3</sup>

9. From a generator's perspective, instances of surplus baseload put strain on baseload generation facilities, including those at the Bruce Nuclear Generating Station. The IESO noted in its evidence that "nuclear units aren't built to go up and down every five minutes and bob and weave on the changes of demand."<sup>4</sup>

"And where surplus results in us calling on nuclear facilities to perform that role, there are short-term and long-term effects to those pieces of equipment that -- they were not intended to operate in that manner."

10. Although the Board has the legal authority to override the IESO's views on this matter if it finds that an alternative to the current ETS Tariff constitutes a just and reasonable rate, it should not do so in this case.

#### **No Alternative Just and Reasonable Rate has Been Proposed**

11. First, there is no alternative rate that is demonstrably more "just and reasonable" than the current rate. As Board staff stated in its submission, "The evidence in this proceeding does not support any other specific rate."<sup>5</sup>

12. Second, the Board should be reluctant to substitute its judgment for that of the IESO. The IESO made its recommendation in consideration of its core responsibilities respecting system reliability and operability. The OEB should only overturn that judgment if it believes that the rate consequences of that outcome are unacceptable. The Board recognized the importance of respecting the IESO's judgment in this matter in framing the scope of this issue in the following terms:<sup>6</sup>

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<sup>3</sup> IESO 18-Month Outlook, May 25, 2009, p. 21 (Ex. K9.3)

<sup>4</sup> Transcript, Vol. 9, p. 45.

<sup>5</sup> Board Staff Submissions, p. 31.

<sup>6</sup> EB-2010-0002, Decision on Issues List, July 20, 2010, P. 37.

“The Board does not see a value in a fundamental reconsideration of the IESO report *de novo*. The Board recognizes the very systematic consultation undertaken by the IESO in developing its report and the application of its very considerable expertise in the subject matter.

...

The Board will permit questions respecting the IESO report which are in the nature of a review of the report, but not a fundamental reconsideration of it.”

13. Bruce Power submits that the IESO has demonstrated strong grounds for maintaining the ETS Tariff at its current rate and that there is no compelling reason to reject that conclusion. A consideration of the cost and benefits of increasing the cost of exporting power through an increased ETS Tariff simply does not support a change at this time.
14. The cost of increasing the ETS is significant. This will lead to increased instances of surplus baseload generation and therefore reduce system flexibility. This cost is difficult to quantify given the uncertainty of the factors that will drive it, namely:
  - Whether electricity demand will recover, and by how much (there has been a material reduction in forecasted demand since the study was prepared in 2009 – from 159 TWh to 145 TWh);<sup>7</sup> and
  - The intermittent and unpredictable nature of large amounts of renewable generation that is expected to be brought into service by 2015.<sup>8</sup>

Indeed, it is this very uncertainty which leads the IESO to conclude that a change should not be made until there is better information on both of these factors.

#### **Cost to Consumers: HOEP Plus GA**

15. The benefits of increasing the ETS are unclear. Two theoretical benefits may be considered, but, further examination demonstrates that neither is sufficiently compelling to overcome the negative impacts on operability.

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<sup>7</sup> Transcript, Vol. 9, pp. 34-35.

<sup>8</sup> Transcript, Vol. 9, pp. 17-18.

16. The first theoretical benefit is that an increase in the ETS would lead to an increase in consumer surplus. This increase is based upon, and is measured by, the reduction in the HOEP.<sup>9</sup>
17. However, the HOEP is not an effective measure of consumer energy charges. Consumers pay two charges: HOEP and GA. GA pays for the out of market costs of OPA contracts and OEB regulated generation. HOEP and GA are inversely related so that the lower the HOEP payment, the larger the GA. Thus, in looking at the total consumer impact, it is necessary to look at the *combined* cost of the HOEP and GA.<sup>10</sup>
18. As a result, as the IESO agreed, the fact that HOEP is lowered does not mean that the total energy charge for the consumer is reduced. In fact, it is possible that a *lower* HOEP can lead to a *higher* total energy charge.<sup>11</sup> For example, high HOEP in August 2010 led to the combined charges to consumers being \$56.73 (\$44 HOEP, \$12 GA), which was one of the lowest cost months to consumers while the HOEP was the highest.<sup>12</sup>
19. As a result, any benefit to consumers brought about by reduced HOEP may be more apparent than real – costs are shifted from the HOEP to the GA.

#### **Just and Reasonable Rates: Cost Causality**

20. The second theoretical benefit is that requiring exporters to pay a higher ETS Tariff is more “fair and equitable” than the *status quo* because, under the *status quo*, the ETS is

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<sup>9</sup> Transcript, Vol. 9, pp. 23-24.

<sup>10</sup> IESO, Effective Pricing in Ontario’s Hybrid Electricity Market, October 28, 2009 (Ex. K9.1, Tab 1, p. 5). Indeed, the OEB’s Market Surveillance Panel (“MSP”) no longer refers to the HOEP as a price signal. Instead, it uses the term “effective HOEP”, which includes HOEP, GA and other charges, such as uplift, see, for example: MSP Report, Market Surveillance Panel Report, November 2009 – April 2010, p. iii.

<sup>11</sup> Transcript, Vol. 9, p. 28.

<sup>12</sup> See: IESO, Monthly Market Report, August, 2010, p. 25.

lower than the Average Embedded Network Cost (“AENC”).<sup>13</sup> However, the AENC is not a measure of just and reasonable rates.

21. The AENC was determined by dividing the 2007 aggregate network revenue requirement for all Ontario transmitters by the annual provincial energy consumption.<sup>14</sup> The resulting figure - \$5 /MWh – is an average cost. It does not purport to be a “just and reasonable rate” and no witness proposed that it is a just and reasonable rate.

22. A just and reasonable rate is not determined by reference to how close a rate is to the average rate paid by all customers. Rather, it is determined by the principle of cost causality, i.e., ensuring that the user who causes the need for a service pays for that service. The OEB’s seminal statement on this issue is as follows:<sup>15</sup>

“The Board is required by its legislation to “fix just and reasonable rates”, and in doing so it attempts to ensure that no undue discrimination occurs between rate classes, and that the principles of cost causality are followed in allocating the underlying rates.”

23. The principle of cost causality – and not the closeness to the average rate - is thus the relevant underlying regulatory principle for setting a just and reasonable rate.

24. Applying the principle of cost causality here, the fact that domestic consumers pay an average rate that is higher than the ETS Tariff charged to exporters is irrelevant. The network system is built to serve the needs of domestic load and they should be responsible for those costs. The transmission system is not built to serve exports.<sup>16</sup>

25. From a cost causality perspective, network assets are built to meet domestic load requirements; it is therefore appropriate that the cost of those assets is recovered from domestic load customers. The fact that, on average, domestic load customers pay more

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<sup>13</sup> Transcript, Vol. 9, p. 40.

<sup>14</sup> Ex. H1-5-2, p. 5, footnote 4.

<sup>15</sup> Decision with Reasons, EBRO 493, p. 317 (emphasis added).

<sup>16</sup> Transcript, Vol. 9, p. 36. It should be noted that some *components* of the system are built for interconnecting the Ontario system to neighbouring jurisdictions, but even here, those components are built to allow for imports to meet domestic load requirements (See transcript, Vol. 9, p. 37).



than do exporters for the cost of the network is entirely consistent with principles of just and reasonable rates.

26. Seen this way, domestic load pays for the costs of the network built to serve it. Those costs would be paid for by domestic load whether or not any power was exported from Ontario. Export revenues constitute a contribution to a transmitter's revenue requirement as a way to offset costs that load customers would have to pay anyway.<sup>17</sup>

### **Conclusion**

27. Bruce Power submits that the ETS Tariff should not be increased because the cost of doing so outweighs the benefits.

**All of Which is Respectfully Submitted this 2nd Day of November, 2010**

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<sup>17</sup> Transcript, Vol. 9, p. 39.