

HQEM INTERROGATORY 1

QUESTION

Interrogatory #1

Reference:

Exhibit D, Tab 1, Schedule 1, page 2.

Preamble:

The evidence filed by the OPA in support of its proposed usage fees for export customers is limited to a single paragraph in its application. In Ex. D, Tab 1, Sch. 1, page 2 the OPA states:

“In past years, the OPA has recovered its fees from Ontario consumers only. The addition of export volumes for calculating the usage fee considers that export customers also benefit from the planning, conservation and procurement activities undertaken by the OPA. The OPA therefore proposes to recover its fees from export customers, in addition to Ontario customers. This is consistent with the practice used by the IESO for recovery of its fees.”

The OPA references the practice used by the IESO as a basis which justifies the OPA's proposal to impose a new fee on export customers. The Electricity Act identifies the objects and character of both the IESO and the OPA. With respect to the IESO section 5 states:

The objects of the IESO are,

(a) to exercise the powers and perform the duties assigned to the IESO under this Act, the market rules and its licence;

(b) to enter into agreements with transmitters giving the IESO authority to direct the operation of their transmission systems;

(c) to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of this Act;

(d) to participate in the development by any standards authority of standards and criteria relating to the reliability of transmission systems;

(e) to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities;

(f) to collect and provide to the OPA and the public information relating to the current and shortterm electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs; and

(g) to operate the IESO-administered markets to promote the purposes of this Act.

Section 25.2 of the Act described the objects and character of the OPA :

The objects of the OPA are,

(a) to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;

(b) to conduct independent planning for electricity generation, demand management, conservation and transmission and develop integrated power system plans for Ontario;

(c) to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;

(d) to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;

(e) to establish system-wide goals for the amount of electricity to be produced from alternative energy sources and renewable energy sources;

(f) to engage in activities that facilitate load management;

(g) to engage in activities that promote electricity conservation and the efficient use of electricity;

(h) to assist the Ontario Energy Board by facilitating stability in rates for certain types of consumers;

(i) to collect and provide to the public and the Ontario Energy Board information relating to medium and long term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

It is clear that the IESO and OPA have very different objectives and purposes.

Questions:

(a) Given the differences between the IESO and the OPA, on what basis does the OPA believe that:

(i) the OPA has the jurisdiction to seek to impose usage charges on export customers, and

1 (ii) the OEB has the jurisdiction to approve an OPA fee which imposes usage fees for
2 export customers?

3 (b) Has the OPA obtained a legal opinion on the question of whether the OPA/OEB has the
4 legal jurisdiction to grant the relief sought by the OPA with respect to imposing the
5 usage fee on export customers? If yes, is the OPA prepared to provide that legal
6 opinion? If no, does it intend to obtain such legal opinion?

7 RESPONSE

8 a) The OPA believes that legal issues related to the usage fee should be addressed in
9 argument, rather than in interrogatory responses.

10 b) Please see the response to a), above.

HQEM INTERROGATORY 2

QUESTION

Interrogatory #2

HQEM would like to understand the origin and background within the OPA concerning why it is advancing the proposed new usage fee on exporters. Specifically please explain the following:

Questions:

- (a) What is the rationale underlying the OPA's proposal to introduce this fee on exporters at this time? What is different in this application as opposed to all the other fee proposals the OPA has filed with the OEB since the OPA's inception?
- (b) What has changed in the OPA's business and operational environment that is driving the proposed change to charge export customers when compared to the OPA's historical and existing practice?

RESPONSE

- a) In its preparation efforts for regulatory submission EB-2010-0279, the OPA undertook a review of its methodology in developing its usage rate. Through that process the OPA determined that it had been inconsistent with the IESO in its recovery of operating expenses from export volumes. As described in Exhibit D-1-1, the addition of export volumes for calculating the usage rate reflects the OPA's view that export customers benefit from the planning, conservation and procurement activities undertaken by the OPA. These benefits are described in greater detail in the response to APPrO Interrogatory 5, at Exhibit I-8-5.
- b) As described in a), above, the 2010 review of the OPA methodology was inconsistent with that employed by the IESO. The OPA believes that export customers benefit from the activities of the OPA.

HQEM INTERROGATORY 3

QUESTION

Interrogatory #3

Reference:

General

Questions:

- (a) Please confirm that the OPA does not provide electric supply procurement-related services and conservation-related services to entities located outside the Province of Ontario. If not, please specify to which entities the OPA provides such services, the jurisdiction where they are located, which services those entities availed themselves of, whether the OPA collects any revenues from these entities, and how much.
- (b) Please confirm that the direct costs of the various electric supply contracts procured by the OPA are being recovered from Ontario end users only. In this question, the term "direct costs" relates only to the cost of the electric supply itself, as agreed to between the OPA and the suppliers, and does not relate to the OPA's own administration costs related to procurement and contract management which are being taken into account to develop its fee proposal.
- (c) Please confirm that the direct costs of the conservation programmes developed and managed by the OPA are recovered from Ontario end users only. In this question, the term "direct costs" relates only to the cost of the programmes themselves (e.g., labour, materials, marketing, etc.), and does not relate to the OPA's own administration costs which are being taken into account to develop its fee proposal.

RESPONSE

- a) The OPA's activities related to supply procurement and conservation provide benefits to all customers using the Ontario electricity system, including export customers. Please see the response to APPrO Interrogatory 5, at Exhibit I-8-5.
- b) The direct costs of electricity supply contracts procured by the OPA are being recovered from Ontario end users only.
- c) The direct costs of the conservation programmes developed and managed by the OPA are recovered from Ontario end users only.

HQEM INTERROGATORY 4

QUESTION

Interrogatory #4

Reference:

Exhibit D, Tab 1, Schedule 1, page 2, line 6 to page 3, line 2.

Questions:

- (a) Does the OPA agree that one of the main cost allocation and rate design principles applied in the utility industry in setting rates and/or tariffs is based on the principle of cost causality, that is, in order to establish just and reasonable rates customers or entities that impose costs on utilities should be responsible for those costs? If the OPA does not agree, please explain why not.
- (b) Has the OPA conducted a cost allocation study similar to the OEB's recommended cost allocation study used by distributors to allocate their distribution revenue requirement, to determine which of OPA's customers or entities impose OPA's costs? If yes, please provide the study. In the OPA's view, has the OPA allocated OPA's costs to these customers or entities based on cost causation principles?
- (c) Please provide a review of the various cost allocation models used by natural gas utilities in Canada (in Ontario and elsewhere) and electric utilities in Canada outside the Province of Ontario to allocate and recover their own overhead and administration costs related to network planning, conservation programmes and supply procurement across their various classes of customers.

RESPONSE

- a) The OPA agrees that one of the main cost allocation and rate design principles applied for the purpose of determining rates to be paid by different customer classes of a utility in setting rates and/or tariffs is based on the principle of cost causality, that is, in order to establish just and reasonable rates customers or entities that impose costs on utilities should be responsible for those costs.
- b) The OPA has not conducted a cost allocation study similar to the OEB's recommended cost allocation study used by distributors to allocate their distribution revenue requirement. All of the OPA's activities are focused on ensuring adequate supply through a reliable electricity system with sufficient capacity to accommodate the needs of all users.
- c) The OPA has not conducted such a review.

HQEM INTERROGATORY 5

QUESTION

Interrogatory #5

Reference:

Exhibit B, Tab 1, Schedule 1, page 3, line 23 to page 4, line 5.

Question:

Would the OPA agree that of the OPA's five (5) Strategic Objectives, the only Objective which deals with transmission planning is Strategic Objective # 1 and that, more specifically, only initiative # 4 of Strategic Objective # 1 is related to transmission planning? If the OPA does not agree, please identify which other Strategic Objectives and initiatives relate to transmission planning.

RESPONSE

The OPA agrees that its transmission planning activities are contained within Strategic Objective 1. The OPA does not agree that transmission planning activities are related only to Initiative #4 within that Strategic Objective.

Transmission system planning is undertaken in an integrated context, and is impacted by all of the initiatives outlined in Strategic Objective 1. The evidence at Exhibit B-1-1 describes the activities to be undertaken to develop a long term Integrated Power System Plan, which will address transmission planning considerations. Transmission system priorities and options will be considered through the examination of load forecast scenarios that integrate conservation (Initiative #2); and through the evaluation of system supply options and requirements (Initiative #3). Integrated regional and local planning activities (Initiative #5) will optimize local and regional development to achieve efficient outcomes and ensure ongoing reliability of the transmission system. Planning work to support the Feed in Tariff program (Initiative #6) will ensure transmission system availability prior to connection of renewable energy generation projects and support economic expansion of the transmission system as required to accommodate these new sources of supply.

These transmission activities are supported through the activities of the internal support groups as described at Exhibit B-4-1 and the Communications division at Exhibit B-5-1.

1 **HQEM INTERROGATORY 6**

2 **QUESTION**

3 **Interrogatory #6**

4 **Reference:**

5 Exhibit B, Tabs 1 to 5, Schedule 1.

6 **Question:**

7 Would the OPA agree that based on cost causality principles exporters and external loads
8 would only impose on the OPA costs related to Transmission planning? If the OPA does
9 not agree, please explain why not.

10 **RESPONSE**

11 The OPA does not agree that exporters and external loads would only impose on the OPA
12 costs related to Transmission planning. Please see the response to APPrO Interrogatory 5,
13 at Exhibit I-8-5.

HQEM INTERROGATORY 7

QUESTION

Interrogatory #7

Reference:

Exhibit D, Tab 1, Schedule 1, page 2, Table 1.

Questions:

The OPA has identified three variance accounts that are included in its Net Revenue Requirement,

(a) Forecast Variance Deferral Account ("FVDA") was established to record 2010 revenue variances and any cost variances not otherwise incorporated into the revenue requirement submission of the prior year.

(b) Retail Contract Settlement Deferral Accounts ("RCSDA"): sections 25.34 (1) and (2) of the Act require the OPA to make payments to retailers with respect to certain contracts with low-volume and designated consumers. These legislative provisions ensure that retailers will be held whole by the OPA for contracts with low-volume and designated consumers, entered into before prices were frozen by legislation in 2002. To ensure that the retailers receive the same amounts that they would have received under those contracts, the OPA and the retailer settle any differences between the Hourly Ontario Electricity Prices ("HOEP") and the contract price. The settlement of these retail contracts is carried out on a monthly basis.

(c) Government Procurement Costs Deferral Account ("GPCDA") records government transfer costs associated with section 25.18 of the Act.

Please describe how these three variance accounts are related to exporters and external loads based on cost causality principles, and indicate why the balances of these variance accounts should be recovered also from exporters and external loads, as being recommended by the OPA.

RESPONSE

Government transfer costs recorded in the GPCDA represent costs incurred by the government of Ontario for procurement activities "relating to the OPA, a procurement contract, an initiative described in clause 25.32 (4) (a) or a matter within the objects of the OPA". These procurements are for electricity supply or conservation initiatives, similar to the procurements undertaken by the OPA. As described in the response to APPrO

1 Interrogatory 5, at Exhibit I-8-5, supply and conservation procurements provide benefits to
2 all system users, both domestic and export.

3 The RCSDA balance was approved by the Board for recovery through the usage fee from
4 all users beginning in 2009. There are a number of classes of consumers who could argue
5 that they do not benefit from the costs incurred under this account. Given the minimal
6 amount that would be allocated to export consumers, administrative simplicity favours the
7 application of a single uniform usage fee for all classes of consumers. To the extent that
8 the OPA has proposed that export customers be considered users of the system beginning
9 in 2011, it is appropriate for these users to be assigned a share of this balance, based on
10 their system usage.

11 The 2011 FVDA is proposed to be recovered from all system users on a volumetric basis.
12 As system users, export customers would be assigned a portion of this balance, based on
13 their system usage. This deferral account related to past OPA activities from which export
14 customers benefit.

HQEM INTERROGATORY 8

QUESTION

Interrogatory #8

Reference:

Exhibit A-3-1, page 23 of 56.

Question:

In Exhibit A-3-1, page 23 of 56, (page 81 of PDF document), the OPA states that: "Stakeholder involvement remains a central part of virtually all of the OPA's initiatives and activities." Did the OPA consult with exporters with respect to the new proposal to recover OPA revenue requirement from exporters?

RESPONSE

No, the OPA did not consult with exporters prior to submitting its revenue requirement application. The OPA's revenue requirement proceeding is a public process that allows interested parties to provide input into OPA proposals.

