

Ontario Energy Board

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

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 2013 and 2014.

ENERGY PROBE RESEARCH FOUNDATION

(“ENERGY PROBE”)

SUBMISSIONS ON

EXPORT TRANSMISSION SERVICE RATE

March 22, 2013

Hydro One Transmission
EB-2012-0031
SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION
Re: Export Transmission Service Rate

How these Matters Came before the Board

Hydro One Networks Inc. (“Hydro One”) filed an application, dated May 28, 2012, with the Ontario Energy Board under section 78 of the *Ontario Energy Board Act, 1998*, c.15, Schedule B, seeking approval for changes to its 2013 and 2014 transmission revenue requirement and for changes to the provincial uniform transmission rates charged for electricity transmission, to be effective January 1, 2013 and January 1, 2014. The Board assigned File Number EB-2012-0031 to the application.

A Settlement Conference was held from October 23 to 26, 2012. Parties achieved settlement on all but one issue, namely Issue #23 from the approved Issues List: “What is the appropriate level for Export Transmission Rates in Ontario?”

The Board approved the Settlement Proposal (filed by Hydro One on November 6, 2012) in an oral decision on November 8, 2012. At that time, the Board also set a date for the submission of Hydro One’s Draft Rate Order and also declared the existing 2012 transmission rates interim as of January 1, 2013.

Following a request from APPRO and submissions from other parties, on December 7, 2012, the Board Issued its Decision and Procedural Order # 10 that stated that Hydro One’s current Export Transmission Service rate of \$2/MWh is final as of January 1, 2013 until such time as the Board makes its decision on the final ETS rate.

The ETS tariff of \$1.00/ MWh was established by the Board in 1999; at the time it was approved as an interim solution and compromise amongst numerous competing interests.

In Hydro One's 2011 and 2012 transmission rate decision, the Board increased the ETS tariff to \$2.00/ MWh and directed the IESO to undertake a comprehensive ETS tariff study to identify a range of proposed ETS rates and the pros and cons associated with each.

The Board further directed that the IESO consult with stakeholders on the terms of reference to ensure the scope of the study was sufficiently broad and well-defined to provide useful analysis in support of Hydro One's 2013 and 2014 transmission rate application.

The IESO initiated a stakeholder consultation (SE-94) in May 2011 to solicit input on proposed tariff rates/ designs and on the key variables against which to assess them.

Energy Probe Research Foundation was part of the SE-94 Consultation.

The input from SE-94 was used to formulate the request for proposal and study contracted to Charles River Associates ("CRA").

CRA, with input from stakeholders, studied five ETS tariff options, namely:

- the status quo \$2.00/ MWh rate;**
- the unilateral elimination of the export tariff in Ontario (i.e., a \$0.00/ MWh rate);**
- an increase in the ETS tariff to the current Equivalent Average Network Charge ("EANC") of \$5.80;**
- a tiered rate of \$5.80/ MWh during on-peak hours and \$0.00/ MWh during off-peak hours; and**
- a tiered rate of \$3.50/MVWh on-peak and a \$1.00/ MWh off-peak**

ETS HEARING

The Association of Power Producers of Ontario ("APPrO") and HQ Energy Marketing Inc. ("HQ") also filed expert reports by Navigant Economics ("Navigant") and Elenchus Research Associates Inc. ("Elenchus"). The Navigant report advocated a lowering of the ETS tariff.

The Elenchus Report recommended inter-alia that the ETS tariff be established pursuant to cost causality principles.

Pursuant to the Board's Procedural Order No. 8, the three experts retained by the above parties prepared and filed a joint expert's report and appeared together as a concurrent expert panel together with the IESO's Manager of Marketing Development at the ETS hearing on February 25 and 26, 2013.

At the ETS hearing, the CRA witnesses confirmed that they followed the Board's direction by identifying a range of tariff options and assessing their respective pros and cons; but had not recommended a particular tariff option.

IESO EVALUATION OF THE OPTIONS STUDIED

In its March 8, 2013 submission the IESO notes that in establishing an ETS tariff for Ontario, the Board must have regard to general ratemaking principles and its statutory objects - protecting the interests of consumers, promoting economic efficiency and cost effectiveness, and facilitating a financially viable electricity industry - and that the Board's consideration of these factors invariably entails a balancing of interests.

In order to assist the Board, the IESO offers its evaluation of the ETS tariff options in regards to its core responsibilities under the *Electricity Act*, namely, to ensure the reliable operation of the Ontario power system and to operate the wholesale electricity market to promote economic efficiency in the generation.

In summary, the IESO recommends that the Hydro One TX ETS rate be reduced to zero (Option 2-unilateral elimination) based on a number of current and forecast market considerations, including:

- the most efficient use of Ontario's generation assets;
- the most efficient use of the transmission system; and,
- the greatest improvement to regional efficiency (which further signifies efficient use of generation assets in Ontario).

As part of its consideration of the options the IESO considered inter alia the impact on Ontario Electricity Consumers.

The table below summarizes the estimated bill changes for an electricity customer consuming 800kWh of energy in a month. A positive number reflects an increase in the consumer's bill and a negative number indicates a decrease.

(Note the status quo is not listed below).

Table 2: Impact to a typical Consumer's Monthly Bills — \$ per 800kWh of Consumption²⁵

ETS Tariff Option	Unilateral Elimination			Equivalent Average Network Charge			Two-Tier Option A			Two-Tier Option B		
	2013	2015	2017	2013	2015	2017	2013	2015	2017	2013	2015	2017
Electricity Cost Impact Δ	-0.14	-0.08	-0.06	0.15	0.15	0.04	-0.02	-0.02	0.01	-0.04	-0.01	-0.01
Transmission Cost Impact Δ	0.23	0.25	0.16	-0.28	-0.46	-0.18	0.02	-0.02	-0.09	-0.02	-0.01	-0.06
Total Bill Impact	0.09	0.17	0.10	-0.13	-0.31	-0.14	-0.00	-0.04	-0.08	-0.06	-0.02	-0.07

In IESO's assessment, Ontario Electricity consumers will be "net better off" by increased exports. Hydro One Transmission costs will increase but Export Power Revenues and Other Benefits will offset this.

Energy Probe Submission

Energy Probe is an interested party in this matter and participated in the SE-94 process. We did not participate directly in the hearing; we have reviewed the Expert Report, Transcripts and IESO submission.

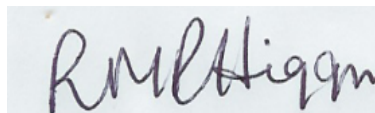
Apart from concerns about an increase in the transmission portion of electricity consumer bills, Energy Probe has concerns with the following elements of the IESO proposal to eliminate the Export Transmission Service Tariff:

- 1. Surplus Base Load Generation (and displaced generation) may not have been fully considered;**
- 2. Increased transmission costs may not be fully offset by increased exports and the net benefit to small users of electricity overestimated;**
- 3. Regional economic interests may have lower benefit to Ontario than anticipated;**
- 4. Avoidance of a fully allocated Export Transmission Cost Study.**

For these reasons Energy Probe takes the position that:

- retaining the Tariff at the current \$2.00/MWh is preferable; and**
- a full cost allocation study should be done by Hydro One and IESO for the next Hydro One TX Rate case.**

All of which is Respectfully Submitted this 22nd Day of March 2013.



Roger M. R. Higgin; Sustainable Planning Associates Inc.

On Behalf of Energy Probe Research Foundation