

**John A.D. Vellone**  
T 416-367-6730  
F 416.367.6749  
jvellone@blg.com

Borden Ladner Gervais LLP  
Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada M5H 4E3  
T 416.367.6000  
F 416.367.6749  
blg.com



December 16, 2019

**Delivered by Email, RESS & Courier**

Ms. Christine Long, Registrar and Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27th Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Hydro One Networks Inc.  
Application for Transmission Rates for 2020 to 2022  
Board File No. EB-2019-0082  
Written Submissions of The Association of Power Producers of Ontario**

In accordance with Procedural Order No. 3, please find enclosed the Association of Power Producers of Ontario's written submissions in the above noted proceeding.

This filing has been submitted electronically using the Board's Regulatory Electronic Submission System and two (2) hard copies will be sent via courier.

Yours very truly,

**BORDEN LADNER GERVAIS LLP**

Per:

*Original signed by John A.D. Vellone*

John A.D. Vellone

cc: David Butters, APPrO  
All Parties to EB-2019-0082

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

**AND IN THE MATTER OF** an Application by Hydro One Networks Inc. for an order or orders made pursuant to section 78 of the Act approving rates for the transmission of electricity effective January 1, 2020 and for each following year through to December 31, 2022.

**SUBMISSION OF**  
**THE ASSOCIATION OF POWER PRODUCERS OF ONTARIO**

*On the appropriate Export Transmission Service Rate*

December 16, 2019

**BORDEN LADNER GERVAIS LLP**

Bay Adelaide Centre, East Tower  
22 Adelaide St. W.  
Toronto, Ontario M5H4E3

John A. D. Vellone  
Tel: (416) 367-6730  
Fax: (416) 367-6749  
[jvellone@blg.com](mailto:jvellone@blg.com)

Counsel for the Association of Power  
Producers of Ontario

## Table of Contents

I.	INTRODUCTION .....	1
II.	EXECUTIVE SUMMARY .....	2
III.	BACKGROUND: THE ETS DECISION.....	6
IV.	HYDRO ONE’S RESPONSE TO THE ETS DECISION.....	8
V.	HYDRO ONE’S JUSTIFICATION FOR THE PROPOSED ETS RATE OF \$1.85/MWH ...	11
VI.	THE ELENCHUS STUDY AND THE RECOMMENDED METHODOLOGY .....	14
	(a) Using prior year actual hourly data for domestic and export customers .....	16
	(b) 12 CP should be the allocator used in apportioning assets between domestic and export customers .....	17
	(c) Only dedicated assets used to serve export customers and related expenses should be allocated to the export customer class .....	18
	(d) OM&A expenses related to the use of shared assets should be allocated to export customers using composite assets as allocator.....	21
	(e) No external revenues should be allocated to the export customer class.....	22
	(f) The ETS rate should be based on Hydro One’s OEB approved Network revenue requirement, as used in determining the UTRs, adjusted to include other transmitters’ approved revenue requirement as reflected in the UTRs.....	22
	(g) Conclusions .....	23
VII.	THE PROBLEM WITH IGNORING THE ETS DECISION AND THE ELENCHUS STUDY RECOMMENDATIONS.....	24
VIII.	USE OF THE THREE-YEAR ROLLING AVERAGE METHOD TO FORECAST 2020 EXPORT VOLUMES TO CALCULATE THE 2020 ETS RATE .....	25
IX.	OEB STAFF SUBMISSIONS .....	30
X.	CONCLUSION.....	34

**I. INTRODUCTION**

1. On March 21, 2019, Hydro One Networks Inc. (“Hydro One” or the “Applicant”) filed an application with the Ontario Energy Board (“OEB” or the “Board”) for a Custom Incentive Rate-Setting framework to cover a three-year test period commencing January 1, 2020 and ending December 31, 2022 under EB-2019-0082 (“Application”).
2. As part of the Application, Hydro One requested orders approving, *inter alia*, a proposed Export Transmission Service (“ETS”) rate of \$1.85/MWh for each of the test years and the continuation of Hydro One’s current regulatory accounts including the Excess Export Service Revenue variance account (Account 2405) (“Export Variance Account”).
3. The Association of Power Producers of Ontario (“APPrO”) filed a Notice of Intervention on May 6, 2019 and was granted intervenor status. As expressed in its Notice of Intervention, APPrO’s primary interest in this proceeding is the ETS rate. Specifically, Issue 25 of the Issues List: “Is the Export Transmission Rate of \$1.85 and the resulting ETS revenues appropriate?”.<sup>1</sup>
4. Hydro One subsequently filed an updated application on June 19, 2019, which contained updated evidence such as increasing the transmission revenue requirement for 2020 from \$1,673.4 million to \$1,673.8 million (“Updated Application”). Hydro One did not revise the proposed ETS rate of \$1.85/MWh as part of the Updated Application.
5. A Technical Conference was held on August 12 to 13, 2019 and an oral hearing took place from October 23, 2019 to November 4, 2019 (“Oral Hearing”). Hydro One filed its Argument-in-Chief on November 22, 2019<sup>2</sup> (“Argument-in-Chief”).
6. In the Application and throughout this proceeding, the Applicant has maintained its view that the ETS rate should be \$1.85/MWh, as it was negotiated as part of a settlement agreement in Hydro One’s 2015-2016 Transmission Rates proceeding (EB-2014-0140)<sup>3</sup>.

---

<sup>1</sup> Decision on Issues List and Confidentiality dated September 23, 2019, Schedule A, Approved Issues List.

<sup>2</sup> EB-2019-0082 Argument-in-Chief dated November 22, 2019 (“Argument-in-Chief”), page 121 of 122.

<sup>3</sup> EB-2019-0082, Exhibit I2 Tab 4, Schedule 1, Page 3 of 4.

**II. EXECUTIVE SUMMARY**

7. In the Board’s Decision and Order *2013 Export Transmission Service Rates* dated June 6, 2013 (“ETS Decision”), made as part of Hydro One’s 2013 to 2014 Transmission Rates case (EB-2012-0031), the Board had ordered Hydro One to prepare a cost allocation study involving the network assets utilized by export transmission customers, to report the results of this study, and to propose a **cost-based ETS rate**.<sup>4</sup>
8. We have known what an appropriate cost-allocation to exports should have been since 2015 when the first cost allocation study was completed. The evidence in this case shows that since 2015, exporters have been treated unfairly and have already overpaid their costs to the Hydro One system to the tune of \$45.5 million, as shown in the table below.

Year	Total Hydro One Revenue Requirement allocated to Export <sup>5</sup> (million)	Actual ETS Revenue <sup>6</sup> (million)	Overpayment by Exporters (million)
2015	\$27.2	\$42.8	\$15.6
2016	\$27.2	\$41.0	\$13.8
2017	\$27.2	\$35.8	\$8.6
2018	\$27.2	\$34.7	\$7.5
<b>Total</b>	--	--	<b>\$45.5</b>

9. Several of the other intervenors will likely make different spurious allegations in an attempt to undermine the implementation of the ETS Decision. APPrO submits the OEB should reject those spurious allegations.
10. APPrO submits that the OEB has a factual basis to rectify this issue by setting the ETS rate to \$1.21/MWh for 2020, which the evidence demonstrates is an appropriate cost-based rate. APPrO submits that this rate should be maintained for 2021 and 2022 for rate stability purposes.

---

<sup>4</sup> EB-2012-0031 – Decision and Order dated June 6, 2013 (“ETS Decision & Order”) at page 10.

<sup>5</sup> EB-2019-0082 Exhibit I2, tab 4, Schedule 1, Page 3 of 4

<sup>6</sup> EB-2019-0082 Exhibit JT 1.36-Q1 at page 1 of 3.

11. The evidence in this case is that Hydro One’s proposed ETS rate of \$1.85/MWh is not a cost-based ETS rate. Hydro One’s proposal is not in compliance with the ETS Decision.
12. The evidence in this case is that Hydro One retained Michael Roger of Elenchus Research Associates Inc. to prepare *The Export Transmission Service Rate – Cost Allocation Methodology* (“Elenchus Study”) as part of Hydro One’s 2015 transmission rate application (EB-2014-0140).<sup>7</sup>
13. The Elenchus Study is responsive to part of the ETS Decision – it is a cost allocation study involving the network assets utilized by export transmission customers.
14. In its 2015 transmission rate application, Hydro One proposed an ETS rate of \$1.70/MWh, which was consistent with the results of the Elenchus Study.<sup>8</sup> However, because of unique procedural aspects of Hydro One’s 2015 transmission rate application, which was settled much earlier than is typical in an OEB process, the parties to that process settled on an ETS rate of \$1.85/MWh (which coincidentally is also the mid-point between the then current ETS rate of \$2.00/MWh and the cost-based ETS rate recommended in the Elenchus Study of \$1.70/MWh). This settlement is not binding on the current OEB panel.
15. In the Elenchus Study, Mr. Roger, a widely recognized expert in cost allocation and rate design, **recommended a single cost allocation methodology which is appropriate for the ETS rate.**
16. While the Elenchus Study did test the sensitivities of the results of his recommended methodology to a range of other assumptions (which Mr. Roger called scenarios) – that was explicitly described in the Elenchus Study as a sensitivity analysis. The intent was to describe to the readers the sensitivity of the analysis to other assumptions. A clear reading of the Elenchus Study shows that Mr. Roger did not endorse any of the other assumptions used for the purposes of the sensitivity analysis. In the Elenchus Study, there is one and

---

<sup>7</sup> *The Export Transmission Service Rate – Cost Allocation Methodology* by Michael Roger of Elenchus Research Associates Inc. dated May 7, 2014 (“Elenchus Study”), EB-2019-0082 Exhibit JT-1.36-Q02, Attachment 4.

<sup>8</sup> EB-2014-0140, Section II - Proposed Settlement Agreement filed September 16, 2014 (“Settlement Proposal”) at page 24 of 27; and EB-2019-0082 Exhibit J7.7 filed November 11, 2019 at Page 1 of 1.

only one recommended methodology that results in a cost-based ETS rate consistent with the ETS Decision.

17. The Elenchus Study was first filed in 2015 and then again with this Application. The methodology recommended by Elenchus to arrive at a proper cost-based ETS rate was well known and understood by all of the parties by the time the Application was filed. If any party, including SEC, OEB Staff, or others, wanted to challenge the cost allocation methodology recommended in the Elenchus Study, then that party should have retained a subject matter expert to file a competing cost allocation methodology during the evidentiary phase of this Application. No party chose to do this. As a direct result, this OEB panel has one and only one recommended methodology that results in a cost-based ETS rate consistent with the ETS Decision. APPrO submits that the OEB should not defer adopting a proper, cost-based ETS rate based on speculative arguments about a hypothetical competing cost allocation methodology that does not in-fact exist, and which the Elenchus Study expressly rejected.
18. The evidence in this case demonstrates that unlike other customer classes in a more typical cost allocation study for shared assets, exporters are unique because they are in no way considered by Hydro One when it is planning for its transmission system. In addition, exports are an interruptible service, which means that they receive a lower quality of service and lower priority compared to domestic customers. For these reasons, the Elenchus Study recommends that no costs for shared assets be allocated to exporters. If exporters were to be required to pay for the Hydro One shared assets, then a necessary corollary of that decision would be that Hydro One would need to modify its system planning to now take into account exports.
19. No party in this proceeding has filed any credible evidence suggesting that the costs for shared assets should be allocated to exporters. This is despite the fact that they have known about the results of the Elenchus Study since 2015, and have had ample opportunity to do so.

20. The evidence in this case is that the appropriate cost-based ETS rate for 2020 is \$1.21/MWh,<sup>9</sup> which is calculated based on the methodology recommended by Michael Roger of Elenchus in an ETS cost allocation study (discussed below) and uses a three-year rolling average to forecast export volumes for 2020 for the purposes of calculating the billing determinants for the ETS rate (rather than using 2018 export volumes, which is the year that represented the lowest level of exports in Ontario recorded on the evidentiary record in this case).
21. The evidence in this case further demonstrates that the adoption of a proper cost-based ETS rate will have minimal impacts on other ratepayers, particularly when compared to the level of other increases sought by Hydro One in the Application (which are orders of magnitude higher than the impact of this small change).<sup>10</sup>
22. The use of the three-year rolling average for the purposes of forecasting export volumes in 2020 when setting the billing determinants for the ETS rate in 2020 is appropriate because:
  - (i) the three-year rolling average methodology is already used by Hydro One to forecast export volumes in 2020 for the purposes of forecasting export revenues;<sup>11</sup>
  - (ii) it makes absolutely no sense to use one forecast to calculate export revenues and a completely different forecast to set the billing determinants for 2020; and
  - (iii) it represents a better forecast of what export volumes will be in 2020, as evidenced by actual export volumes year-to-date, which show a reversal of the previous three-year declining trend and are much higher than they were in 2018 as of September in the previous year;<sup>12</sup>
23. If other parties wish to challenge the results of the Elenchus Study, they are open to do so by retaining a cost allocation expert to prepare a competing methodology. In the absence of such evidence, the Board should not delay its decision to correct the ETS rate so that it better represents widely accepted, fair and appropriate cost-allocation principles.

---

<sup>9</sup> EB-2019-0082 Exhibit JT 1.36-Q1 filed August 21, 2019 at page 3 of 3.

<sup>10</sup> Exhibit I, Tab 03, Schedule 4.

<sup>11</sup> EB-2019-0082 VECC Interrogatory #55 Exhibit I, Tab 10 Schedule 55 at page 1 of 1.

<sup>12</sup> EB-2019-0082 Exhibit J8.4 filed November 11, 2019 at page 1 of 1.



### **III. BACKGROUND: THE ETS DECISION**

24. The ETS Decision provides helpful background and context to the current ETS rate dispute.
25. Prior to making the ETS Decision, that Board panel was informed by three different experts. The IESO engaged Charles River Associates (“CRA”) to perform an ETS Tariff Study<sup>13</sup> (“CRA Study”) which was then filed as part of the evidence in the EB-2012-0031 proceeding (“2013 Proceedings”). CRA studied five different ETS rate options. APPrO retained Navigant Economics which filed a report that outlined the shortcomings of the quantitative analysis component of the CRA Study.<sup>14</sup> APPrO also filed evidence by Mr. Marc-André Laurin, Senior Trader at Brookfield Energy Marketing LP, who assessed the CRA options from the perspective of “real world” electricity trading.<sup>15</sup> Hydro Quebec Energy Marketing Inc. (“HQEM”), who was also an intervenor in the 2013 Proceedings, engaged Elenchus to assess how the ETS rate should be set.<sup>16</sup> An expert pre-hearing conference was held and the experts also testified during an oral hearing.<sup>17</sup>
26. The OEB panel was also informed by a comprehensive jurisdictional review that was completed in the CRA Study. Transmission costs (with the ETS rate being a component of those costs) of neighbouring jurisdictions to Ontario were considered and evaluated.<sup>18</sup> The jurisdictions evaluated were New York, MISO, PJM, New England ISO, and Quebec. CRA reviewed tariff rates and structures in these neighbouring markets and assessed the proposed rate options on the basis of conformance with generally accepted rate-making principles (such as consistency with neighbouring markets, simplicity, fairness and

---

<sup>13</sup> EB-2012-0031 Exhibit H1-5-2 Appendix B, Export Transmission Service (ETS) Tariff Study, prepared for Independent Electricity System Operator, Charles Rivers Associates, dated May 16, 2012, (“CRA Study”) Page 1 to page 102.

<sup>14</sup> EB-2012-0031- Evaluation of the Export Tariff by Cliff W. Hamal, Navigant Economics, dated October 1, 2012.

<sup>15</sup> EB-2012-0031 – Evaluation of the Export Tariff by Marc-André Laurin of Brookfield Energy Marketing LP (BEMLP) dated October 1, 2012.

<sup>16</sup> EB-2012-0031 – Ontario Cost Allocation and Export Tariff Service, Evidence Prepared by Elenchus Research Associates Inc. for HQ Marketing Inc. dated October 1, 2012.

<sup>17</sup> EB-2012-0031 - Oral Hearing Transcript Volume 2 on February 25, 2013.

<sup>18</sup> CRA Study, Table 2: Transmission Costs for 2011 Calibration Modeling and Status Quo Scenario (C\$2011/MWh), page 24 of 102.

efficiency). It then quantified the impact of each option on Ontario consumers, producers, and the Ontario market.<sup>19</sup>

27. In arriving at the ETS Decision, the OEB panel was already fully informed by the CRA Study's jurisdictional scan.
28. Having considered all of this evidence at that time, the Board concluded that there was insufficient evidentiary support to warrant the elimination of the ETS rate.<sup>20</sup> Rather the Board came to the decision that:

*“The Board will require Hydro One to perform a cost allocation study to establish a cost basis for the ETS rate. Some parties have suggested that such a study would be prohibitively costly. However, the Board accepts the Elenchus testimony that a study could be properly scaled to address the magnitude of the issue and could be completed for a reasonable cost. The Board expects that this study will be completed in time for Hydro One's next cost of service transmission rate application. While Hydro One has the responsibility for completing this study, the Board expects that the IESO will assist Hydro One as required to fully address the ETS rate issue.”<sup>21</sup>*

29. After explaining its decision, the Board specifically made the following order:

*“Hydro One shall prepare a cost allocation study involving the network assets utilized by export transmission customers and report the results of this study, including a proposal of the **appropriate cost based ETS rate** with supporting rationale, to the Board at its next transmission rates application.”<sup>22</sup> (emphasis added)*

30. The OEB did not, in the ETS Decision, direct that the cost allocation study should include a jurisdictional scan. Another jurisdictional scan would be a waste of time, since the OEB

---

<sup>19</sup> CRA Study at page 5 of 102.

<sup>20</sup> ETS Decision & Order at page 6.

<sup>21</sup> ETS Decision & Order at page 9.

<sup>22</sup> *Ibid* at page 12.

had already considered and rejected the results of the CRA Study jurisdictional scan in favour of the Elenchus recommendation to set the ETS rate based on a cost allocation study methodology.

**IV. HYDRO ONE'S RESPONSE TO THE ETS DECISION**

31. There were two parts to the Board's Order in the ETS Decision:
- (i) Hydro One shall prepare a cost allocation study; and
  - (ii) Hydro One shall propose an appropriate cost-based ETS rate.
32. In compliance with the ETS Decision, Hydro One prepared a cost allocation study by hiring Elenchus Research Associates Inc. to prepare the Elenchus Study in its 2015 transmission rates application (EB-2014-0140).
33. Hydro One relied on the cost allocation study to support their proposed ETS rate of \$1.70/MWh in 2015. This was confirmed by Hydro One explicitly in its Proposed Settlement Agreement in EB-2014-0140:

*"Hydro One proposed to adopt an Export Transmission Service ("ETS") Rate of \$1.7 per MWh for 2015 and 2016 as recommended in the Elenchus Study filed as Attachment 1 to Exhibit H1, Tab 5, Schedule 1."*<sup>23</sup>

34. It was further confirmed by Hydro One in its undertaking response that:

*"As stated on page 535 of the pdf document, Hydro One proposed to adopt the recommendation of the Elenchus report filed with the Application, Evidence and Settlement Agreement (which was for a \$1.70 rate)."*<sup>24</sup>

35. Ultimately, for other reasons that relate more to the process that was used for the 2015 transmission rates application, the parties negotiated and settled on a rate of \$1.85/MWh

---

<sup>23</sup> Settlement Proposal at page 24 of 27.

<sup>24</sup> EB-2019-0082 Exhibit J7.7 filed November 11, 2019 at Page 1 of 1.

as the ETS rate. This settlement is not binding on any party, including the OEB, in this Application.<sup>25</sup>

36. In this Application, Hydro One is proposing to maintain the previously negotiated rate of \$1.85/MWh.
37. This was confirmed at the Oral Hearing, where Mr. Clement Li (“Mr. Li”) on behalf of Hydro One confirmed that the current rate of \$1.85/MWh is a negotiated rate and he goes on to state that:

*“Now, again, because of the history of how this ETS rate is set, the nature of this negotiated rate, and also the fact that this Elenchus recommended methodology was never tested or examined by the Board and the intervenors in the settlement agreement, Hydro One does not believe that it is appropriate to just use this study in this application and set the ETS rate directly from this study.”<sup>26</sup>*

38. Additionally, Mr. Henry Andre (“Mr. Andre”) of Hydro One also confirmed this fact.

*MR. VELLONE: [...] This is how the parties described their settlement at that time, which resulted in that 1.85 per megawatt-hour rate.*

*And this was a settlement the OEB panel didn't actually delve into this issue. I believe you said that before, is that correct?*

*MR. ANDRE: Yes, that's correct.*

*MR. VELLONE: And actually, the settlement looks to me like something in between what the evidence in that case said, the Elenchus study said, 1.70 per*

---

<sup>25</sup> EB-2014-0140, Section II - Proposed Settlement Agreement filed September 16, 2014 at page 25 of 27; and EB-2019-0082 - Oral Hearing Transcript Volume 7 dated October 31, 2019, revised on November 20, 2019 (“Transcript Volume 7”) at page 173, lines 12 to 28.

<sup>26</sup> Transcript Volume 7 at page 177, lines 12 to 18.

*megawatt-hour, and the existing rate of \$2 per megawatt-hour. It actually, frankly, the mid-point between those two numbers. Am I reading that right?*

*MR. ANDRE: Yes. You have the recommendation and you have the current rate correct, and 1.85 is in between those two numbers, yes. So it's arrived at through settlement. (emphasis added)*

39. This is in violation of the ETS Decision, which explicitly ordered for Hydro One to propose an appropriate cost-based ETS rate. Hydro One admits that the \$1.85/MWh ETS rate proposed in this Application is not a cost-based rate, rather it is a settled number.
40. The updated Elenchus Study that Hydro One filed with the Application using the Elenchus recommended methodology and updated information, would result in a cost-based rate. This was confirmed in cross-examination of Mr. Andre:

*MR. VELLONE: So I think, if I am understanding that properly, the updated Elenchus study that you filed in this proceeding would result in a cost-based rate? And if that's different than 1.85 per megawatt-hour, then what you are proposing is not a cost-based rate. Am I understanding that correctly?*

*MR. ANDRE: Yes. The scenario, the recommended -- I mean, all of the options that they looked at were based on cost allocation and rate design. So in essence, you could argue they were all cost-based rates.*

*But their recommended scenario, yes, I agree would be a cost-based rate.<sup>27</sup>*

41. Although the updated Elenchus Study filed by Hydro One provided a clear cost-based ETS rate, Hydro One chose not to base its proposal on a cost-based rate.
42. APPrO submits that Hydro One is not in compliance with the Board's ETS Decision.
43. This intentional non-compliance with the ETS Decision illustrates a more problematic systemic bias that Hydro One has demonstrated throughout this proceeding against

---

<sup>27</sup> Transcript Volume 7 at page 179 lines 7 to 18.

exporters, and in favour of its other customers. This same bias is exhibited by OEB Staff in their submissions, and as might be expected is also exhibited by the numerous intervenor groups on behalf of other Hydro One customers that wish to benefit from an unjust and unreasonable cross-subsidy from exporters.

44. This systemic bias against exporters arises again when Hydro One uses a proper three-year rolling average of historic export volumes to forecast export volumes in 2020 for revenue forecasting purposes, but then (inexplicably) uses the single lowest year of historical export volumes on record (2018) to forecast export volumes in 2020 for the purposes of calculating the billing determinates for the Elenchus Study ETS rate of \$1.25/MWh. We will address this second instance of systemic bias later in these submissions.

**V. HYDRO ONE'S JUSTIFICATION FOR THE PROPOSED ETS RATE OF \$1.85/MWH**

45. In its Application, Hydro One proposed an ETS rate of \$1.85/MWh and confirmed that it was negotiated as part of a settlement agreement in Hydro One's 2015-2016 Transmission Rates proceeding.
46. During cross examination at the Oral Hearing, Mr. Li of Hydro One provided two reasons why the Applicant recommend \$1.85/MWh as the ETS rate for 2020.
47. The first reason was based on the nature of the ETS rate and the history of how the ETS rate was set. More specifically, Hydro One asserts that the ETS rate had always been set through settlement agreement or OEB decisions and never been set directly from a result of a study.<sup>28</sup> Hydro One confirms this in its Argument-in-Chief by stating that "the ETS rate has historically not been set strictly based on principles of cost causality."<sup>29</sup>
48. This reason entirely ignores the results of the ETS Decision, where the OEB canvassed this historical record thoroughly, considered numerous different methods to set the ETS rate, and ultimately the OEB concluded that its policy preference was that, in the absence of

---

<sup>28</sup> Transcript Volume 7 at page 177, lines 2 to 27.

<sup>29</sup> Argument-in-Chief, page 121 of 122.

additional evidence, it preferred the establishment of an ETS rate based on the principles of cost causality, as informed by a cost allocation study.

49. Hydro One's second reason for recommending \$1.85/MWh as the ETS rate is the purported negative impact to the Uniform Transmission Rates ("UTR"), which means to the Ontario ratepayers.<sup>30</sup> Hydro One confirms again in its Argument-in-Chief that it is concerned that a decrease in the current ETS rate would adversely impact Ontario electricity customers by reducing the amount of Hydro One's transmission revenue requirement that is offset by ETS tariff amounts.<sup>31</sup>
50. This reason too entirely ignores the results of the ETS Decision. The principles of cost causality dictate that a customer group should be required to pay for the costs that are incurred to service that group. Any departure from the principles of cost causality results in a cross-subsidy from one customer group in favour of another group. This is manifestly unfair to the customer group that is negatively impacted. Hydro One is effectively arguing against setting the ETS rate based on the principles of cost causality in order to maintain a known cross subsidy. Again, Hydro One is ignoring the conclusions of the OEB in the ETS Decision.
51. As described in paragraph 8 above, the evidence in this case demonstrates that there has already been a significant \$45.5 million overpayment by exporters since 2015. Not only is this unfair, but it also makes Ontario exports less competitive, which in-turn creates inefficiencies and increased costs for Ontario's IESO administered markets. Remember that the IESO previously recommended that the OEB should adopt an ETS rate of \$0, largely because this would lead to economically efficient exports which in-turn would promote economic efficiency in the IESO administered markets overall.<sup>32</sup>
52. The Board can and should eliminate this known cross-subsidy by establishing a cost-based ETS rate in this proceeding.

---

<sup>30</sup> Transcript Volume 7 at page 176, lines 21 to 24.

<sup>31</sup> EB-2019-0082 – Argument-in-Chief dated November 22, 2019 ("AIC") at page 121 of 122.

<sup>32</sup> EB-2012-0031 – IESO Submissions dated March 8, 2013 at paragraph 21.

53. A third reason that we expect might be suggested to defend the use of \$1.85/MWh as the ETS rate for 2020 is that it represents a negotiated compromise between all relevant parties which occurred in 2015.
54. APPrO does not agree. This settlement in 2015 was, by its clear terms, in response to a unique process used in that case which was settled much earlier than is typical. Hydro One included in its application a proposed settlement agreement that was reached with ratepayer representatives and other groups that participated in Hydro One's previous transmission rate hearing (EB-2012-0031). An oral hearing for presenting the settlement proposal was held and the settlement agreement was approved at the hearing. As a result of that process, none of the parties had an opportunity to ask questions or test the evidence set out in the Elenchus Study.
55. However, the same is not true now. Throughout the course of this Application, APPrO has taken the initiative through the interrogatory process as well as the technical conference questions, to test numerous aspects of the methodology, assumptions and scenarios used in the Elenchus Study. Other intervenors and OEB Staff were also given a similar opportunity to ask questions to test the Elenchus Study.<sup>33</sup> In addition, other intervenors and OEB Staff had the opportunity to elicit alternative evidence if they believed the Elenchus Study was incorrect or that there was another, better way, to determine the ETS rate.
56. This means that that the rationale for the 2015 settlement compromise, that Elenchus Study recommended methodology has never been tested, has now been eliminated.
57. APPrO submits that the Board panel should adopt an appropriate cost-based ETS rate for 2020 as informed by the recommended methodology in the Elenchus Study.

---

<sup>33</sup> Transcript Volume 7 at page 181 line 22 through to page 182 line 14.



**VI. THE ELENCHUS STUDY AND THE RECOMMENDED METHODOLOGY**

58. The Elenchus Study was prepared by Mr. Michael Roger (“Mr. Roger”), who is a well known and widely regarded expert with over 35 years of experience in the electricity industry in the areas of cost allocation and rate design.
59. Mr. Roger has acted as an expert in cost allocation and rate design in numerous prior OEB proceedings, including:
- Ontario Power Authority 2011 Revenue Requirement Proceedings on behalf of HQ Energy Marketing Inc. (EB-2010-0279);
  - Hydro One 2013 Transmission Rates Proceedings on behalf of HQ Energy Marketing Inc. (EB-2012-0031);
  - Enbridge Gas Distribution Inc. 2014 – 2018 Rate Adjustment Application Proceedings on behalf of APPrO (EB-2012-0459);
  - Horizon Utilities Corporation Custom IR Cost of Service Application Proceedings - 2015-2019 Cost Allocation Study on behalf of Horizon Utilities Corporation (EB-2014-0002); and
  - Hydro One 2015-2016 Transmission Rates Proceedings on behalf of Hydro One (EB-2014-0140).
60. Mr. Roger was also a member of the working group to the May 17, 2013 Elenchus Report entitled *Review of Cost Allocation Policy for Unmetered Loads* (EB-2012-0383).
61. In the Elenchus Study, there is only one recommended methodology that results in a cost-based ETS rate consistent with the ETS Decision.
62. Specifically:

*“It is Elenchus’ recommendation that the cost allocation methodology to be used to develop the ETS rate should be based on:*

- *Using the last year of actual hourly data for domestic and export customers. Forecast domestic and export hourly data is not available either from HONI or IESO,*
- *12 CP should be the allocator used in apportioning assets between domestic and export customers in order to develop composite allocators to allocate shared expenses.*
- *Only dedicated assets used to serve export customers and related expenses should be allocated to the export customer class,*
- *No asset related costs associated with shared assets should be allocated to export customers*
- *Expenses related to the use of shared assets should be allocated to export customers using composite assets as allocator,*
- *No External revenues should be allocated to the export customer class, and*
- *The ETS rate should be based on HONI's OEB approved Network revenue requirement, as used in determining the Uniform Transmission rate, marked up to include other transmitters' approved revenue requirement as reflected in the Uniform Transmission Rates.”<sup>34</sup>*

63. Elenchus did run six scenarios in the Elenchus Study, but these scenarios were used as a **sensitivity analysis only**:

*“The following scenarios were run in order to determine the results sensitivity of the proposed cost allocation methodology to various assumptions.”<sup>35</sup>*

64. A sensitivity analysis represents the study of how the output of a cost-allocation model can be divided and allocated to different sources based on changes in assumptions around the

---

<sup>34</sup> *Ibid.*

<sup>35</sup> Elenchus Study at page 18.

inputs into that model. The results of a sensitivity analysis increases the understanding of the relationships between input assumptions and outputs of the model, and enhances communication from modelers (Elenchus) to decision makers (the OEB).

65. A careful review of the Elenchus Study shows that (1) none of the other assumptions tested as part of the sensitivity analysis were ever recommended by Elenchus; and (2) Elenchus actually specifically rejects each of these assumptions for valid, rational and principled reasons in the Elenchus Study.
66. APPrO will walk through the Elenchus Study recommendations with regards to each criterion below:
- (a) **Using prior year actual hourly data for domestic and export customers**
67. A cost allocation study is generally based on actual historical or forward-looking test year data, and reflects the operating circumstances of a utility at a particular point in time:
- either the last year for which actual historical information is available; or
  - the future test year where rates are being established.<sup>36</sup>
68. At the time of the Elenchus Study, the last year of actual hourly data for domestic and export customers was used because forecast domestic and export hourly data was not available from either Hydro One or IESO.<sup>37</sup>
69. At this point it is important to draw a distinction between (1) the hourly export data required to complete the cost allocation model; and (2) the annual forecast of export volumes that is used by Hydro One in its rate design to calculate the appropriate billing determinates for the ETS rate and to calculate the forecast of export revenues that are applied against the 2020 revenue requirement.

---

<sup>36</sup> Elenchus Study at page 8.

<sup>37</sup> *Ibid* at page 22.

70. Hydro One confirmed that they also do not have a forecast of domestic and export hourly data available for 2020, and consequently Hydro One updated Elenchus Study cost allocation model based on 2018 hourly data.<sup>38</sup>
71. APPrO accepts that Hydro One does not have a forecast of hourly export and domestic data for 2020, and that consistent with the recommendations in the Elenchus Study, it is appropriate to use the last year of actual hourly data for the purposes of updating the cost allocation model from the Elenchus Study.
72. In the submissions below, APPrO will address Hydro One's contradictory proposal to use two different annual forecasts of 2020 export volumes for the purposes of rate design (to calculate the appropriate billing determinants for the ETS rate) and to forecast export revenues to be applied against the 2020 revenue requirement. Both of these issues fall outside of the four corners of this aspect of the Elenchus Study.

**(b) 12 CP should be the allocator used in apportioning assets between domestic and export customers**

73. In the Elenchus Study, Mr. Roger recommends:

*“12 CP should be the allocator used in apportioning assets between domestic and export customers”*<sup>39</sup>

74. As explained in the Elenchus Study, 12 CP is the average demand for each customer class at the hour of each months' maximum system demand. It is used to allocate demand related assets and expenses where system loads are relatively flat and do not show a pronounced yearly peak.<sup>40</sup> Elenchus supports the use of 12 CP for the purposes of determining a cost based ETS rate.<sup>41</sup>

---

<sup>38</sup> Transcript Volume 7 at page 185, lines 11 to 21.

<sup>39</sup> Elenchus Study at page 3, lines 7 to 8.

<sup>40</sup> Elenchus Study at pages 12 and 14.

<sup>41</sup> *Ibid* at page 15.

75. Hydro One also agreed with this recommended criteria at the Oral Hearing. When asked why 12 CP allocator was used rather than 1 CP, Mr. Andre of Hydro One referred to and used the explanation in the Elenchus Study.<sup>42</sup>
76. APPrO also agrees with the recommendation in the Elenchus Study that 12 CP should be the allocator used in apportioning assets between domestic and export customers.
77. In Section 4.3.1 of the Elenchus Study, Mr. Roger does illustrate the sensitivity of the resulting ETS rate should a 1 CP allocator instead be used.<sup>43</sup> However, at no point does Mr. Roger ever recommend using a 1 CP allocator. Indeed, Mr. Roger expressly rejects this option in the Elenchus Study.<sup>44</sup>

**(c) Only dedicated assets used to serve export customers and related expenses should be allocated to the export customer class**

78. In the Elenchus Study, Mr. Roger recommends:

*“Only dedicated assets used to serve export customers and related expenses should be allocated to the export customer class”<sup>45</sup>*

79. Mr. Roger considered this to be appropriate because Hydro One's planning of the network transmission system does not take into consideration the capacity needed to supply export customers. Transmission planning is only based on the capacity needs of domestic customers.<sup>46</sup> This was confirmed by Mr. Andre during cross examination by OEB Staff:

*“I don't take issue with the fact that, you know, in terms of the capacity of the network, certainly our planners don't take into account the amount of exports that need to be delivered.”<sup>47</sup>*

---

<sup>42</sup> Oral Hearing Transcript Volume 8 dated November 1, 2019, revised on November 20, 2019 (“Transcript Volume 8”) at page 153 lines 21 through to page 154 line 8.

<sup>43</sup> Elenchus Study at pages 12 to 15.

<sup>44</sup> Elenchus Study at page 14 line 9 to page 15 line 11.

<sup>45</sup> Elenchus Study at page, 3 lines 10 and 11.

<sup>46</sup> Elenchus Study at page 12, lines 3 to 6.

<sup>47</sup> Transcript Volume 8, page 151, lines 13-15.

80. Put another way - the costs of the transmission network in Ontario are not caused by exporters. Those costs are caused by, and entirely attributable to, domestic customers.
81. Elenchus explains that in order to determine cost-based rates, a cost allocation study should fairly allocate shared assets and expenses to the customer groups served by the utility.<sup>48</sup> Assets dedicated to export are assets that only serve to connect to another transmission utility. As export is considered interruptible service, no asset related costs associated with shared assets are proposed to be allocated to the export customer class.<sup>49</sup>
82. The Board also expressed this view in its ETS Decision:
- “First, whether curtailments originate from generation issues or transmission issues, the Board agrees that export service does not receive the same priority access as domestic service. The Board accepts that the market rules treat exporters more as an interruptible load. This difference in treatment related to generation capacity has consequences for the overall service, even if export transmission rights are technically as firm as domestic transmission rights.”<sup>50</sup>*
83. APPrO agrees with the Elenchus Study recommendation in this regard.
84. However, during a leading cross-examination by Mark Rubenstein of School Energy Coalition (“SEC”), Mr. Andre of Hydro One agreed that an “alternative view” that shared assets could be allocated to all the classes that are utilizing the asset and the only time a customer class is not allocated those costs is if they are not using that asset at all.<sup>51</sup>
85. OEB Staff make a similar suggestion in their final submissions. We will address the substantive policy error of such an approach in this section of APPrO’s argument. We will address the balance of OEB Staff’s submissions in the final section of this argument below.

---

<sup>48</sup> Elenchus Study at page 8.

<sup>49</sup> Elenchus Study at page 12.

<sup>50</sup> ETS Decision & Order at page 5.

<sup>51</sup> Oral Hearing Transcript Volume 9 revised November 26, 2019 (“Transcript Volume 9”) page 10 line 20 through to page 11 line 5.

86. This new approach is entirely inconsistent with the clear recommendations set out in the Elenchus Study. Mr. Roger, an expert in cost allocation and rate design, carefully considered this alternative approach **and recommended against** it based on clear and compelling facts (Hydro One system planning does not take into account of exports) and based on the Board's own ETS Decision.
87. In addition, in its Decision and Order dated July 18, 2011 in EB-2010-0279 (the "2011 Decision"), the OEB explicitly rejected the approach to allocating costs to exporters now being suggested by SEC.
88. In this case, the Ontario Power Authority had proposed to charge exporters the OPA fees on the basis that exporters "benefit" from the activities undertaken by the OPA. The facts in that case showed that, like Hydro One, the OPA engaged in power system planning to meet the needs of Ontario electricity consumers, not exporters, but that an unintended consequence of this was to create potential export capability. The OEB ultimately rejected the OPA's proposal to charge OPA fees to exporters, finding that, *inter alia*:
- "[...] the OPA's activities have the consequence of creating potential export capability. It does not necessarily follow that this "unintended" consequence is a benefit for which exporters should pay. The Board is also reticent to create the linkage that necessarily follows this argument, which is because exporters "pay for this benefit" the OPA is obligated to engage in system planning in a manner that ensures export capability exists."*<sup>52</sup>
89. The facts in this case are analogous. Hydro One's planning of the network transmission system does not take into consideration the capacity needed to supply export customers. While the existence of the network may create the potential for export capability – it does not necessarily follow that this is a benefit for which exporters should pay. The OEB should similarly be reluctant to accept that exporters must pay for the Hydro One transmission network, because of the linkage that necessarily follows:

---

<sup>52</sup> 2011 Decision at pages 16-17.

If exports are required to pay for the benefit of the Hydro One shared assets, Hydro One is obligated to engage in system planning that ensures export capability exists.

90. It should be noted that the Elenchus Study was first filed in 2015 and then again as part of this Application. The recommended approach contained in the Elenchus Study was known to all parties, including OEB Staff, SEC and Hydro One well prior to this hearing. Despite this, no party, including OEB Staff, SEC or Hydro One, have put forth any compelling evidence, expert or otherwise, to support the alternative approach suggested at the 11<sup>th</sup> hour in cross-examination by SEC.
91. The fact that, in Section 5.2.3 of the Elenchus Study, Mr. Roger does illustrate the sensitivity of the resulting ETS rate should all network assets be allocated to exports, much like he did with all of his other recommendations, should not be taken as a viable alternative approach.<sup>53</sup> At no point does Mr. Roger ever recommend allocating all network assets to exports. Indeed, Mr. Roger expressly rejects this option in the Elenchus Study.

(d) **OM&A expenses related to the use of shared assets should be allocated to export customers using composite assets as allocator**

92. In the Elenchus Study, Mr. Roger recommends:

*“OM&A expenses related to the use of shared assets should be allocated to export customers using composite assets as allocator”*<sup>54</sup>

93. APPrO submits that this is a reasonable approach utilized in cost allocation studies to assign OM&A expenses to different customers.
94. Notably, APPrO does not take the position that no asset costs should be assigned to exports and that only OM&A costs should be assigned to exports. That is because such a position would be inconsistent with the principles of cost causality, and the recommendations of Mr. Roger in the Elenchus Study.

---

<sup>53</sup> Elenchus Study, Table 9 Scenarios (2013 load data) Scenario 6, at page 21.

<sup>54</sup> Elenchus Study, page 3 lines 12 to 13.



95. Despite the fact that in Section 5.2.3 of the Elenchus Study, Mr. Roger does illustrate the sensitivity of the resulting ETS rate should no assets be allocated to exports, and only OM&A costs be allocated to exports, much like he did with all of his other recommendations,<sup>55</sup> at no point does Mr. Roger ever recommend this alternative approach. Indeed, much like the balance of the scenarios, Mr. Roger expressly rejects this option in the Elenchus Study.

(e) **No external revenues should be allocated to the export customer class**

96. In the Elenchus Study, Mr. Roger recommends:

*“No external revenues should be allocated to the export customer class”<sup>56</sup>*

97. APPrO agrees with the Elenchus Study recommendation that it is appropriate to exclude external revenues from the allocation to the export customer class.

98. External revenues are the result of using Hydro One’s assets which have been designed to serve domestic customers only, such as revenues from secondary land use in right of ways and providing maintenance services to other entities.<sup>57</sup> Since the assets used to generate the external revenues are not the ones used by the exports, they should not be allocated to export customers.

(f) **The ETS rate should be based on Hydro One’s OEB approved Network revenue requirement, as used in determining the UTRs, adjusted to include other transmitters’ approved revenue requirement as reflected in the UTRs**

99. In the Elenchus Study, Mr. Roger recommends:

*“The ETS rate should be based on HONI’s OEB approved Network revenue requirement, as used in determining the Uniform Transmission Rates, marked up to include other transmitters’ approved revenue requirement as reflected in the Uniform Transmission Rates”<sup>58</sup>*

---

<sup>55</sup> Elenchus Study, Table 9 Scenarios (2013 load data) Scenario 5, at page 21.

<sup>56</sup> Elenchus Study, page 3 line 14.

<sup>57</sup> Elenchus Study at page 13.

<sup>58</sup> Elenchus Study, page 3 lines 15 to 18.

100. By adjusting the calculated ETS rate to reflect other transmitters' approved Network revenue requirement, Mr. Roger notes it would result in consistency between the sales data and the financial data - both reflect all transmitters in Ontario.<sup>59</sup> This is important because the hourly data used from the IESO reflects all transmission electricity sales in all of Ontario, while the financial assets and expense data used in developing the cost allocation methodology reflects only Hydro One's data.<sup>60</sup>
101. APPrO agrees with this recommendation in the Elenchus Study as well, as being consistent with a cost-based ETS rate approach.

(g) **Conclusions**

102. Overall, APPrO submits that the Elenchus Study prepared by Mr. Roger is credible, comprehensive, and responds directly to the Board's request for a cost-based methodology for calculating the ETS rate.
103. At the Oral Hearing, when asked whether Hydro One generally agrees with Mr. Roger in the Elenchus Study from a cost allocation point of view, Mr. Li of Hydro One stated that Hydro One takes no issues with the Elenchus Study.<sup>61</sup>
104. Moreover, in this Application, Hydro One updated the Elenchus Study using updated information, such as the updated fixed assets dedicated to interconnections, the 2018 system peak and export load data used to determine the 12 CP allocator. Using the results of the Elenchus Study cost allocation model, and using an annual forecast for 2020 ETS exports volumes of \$18,800,000 MWh, Hydro One calculated a new cost-based ETS rate of \$1.25/MWh.<sup>62</sup>
105. APPrO submits that the Elenchus Study recommended methodology is the only cost-based methodology available before the Board for calculating the ETS rate.

---

<sup>59</sup> Elenchus Study at page 17.

<sup>60</sup> *Ibid.*

<sup>61</sup> Transcript Volume 7 at page 176, line 12.

<sup>62</sup> EB-2019-0082 – Exhibit I2, Tab 4, Schedule 1, Pages 2 and 3.

106. Parties that wished to dispute the Elenchus Study recommended methodology had the opportunity to retain their own cost allocation expert and file alternative evidence in this proceeding. They chose not to do so. While Elenchus tested the sensitivity of their recommendations in the Elenchus Study using a variety of different alternative assumptions, ultimately it is the Elenchus Study recommendations, prepared by Mr. Roger, a credible independent expert in cost allocation and rate design, that the Board should give weight to when determining a cost-based ETS rate.
107. Hydro One has previously expressed no issue with the Elenchus Study recommendations, and Hydro One even adopted this methodology in their calculation of the ETS rate in their 2015 rate application.
108. APPrO submits that the Elenchus Study recommendation should therefore be used to set the ETS rate in 2020, which will be maintained for the balance of the Custom IR term.

**VII. THE PROBLEM WITH IGNORING THE ETS DECISION AND THE ELENCHUS STUDY RECOMMENDATIONS.**

109. Some parties may suggest that due to the unique history of the ETS rate in Ontario, or perhaps as a result of the sensitivity analysis conducted by Mr. Roger in the Elenchus Study, or perhaps because certain customer classes benefit from an unfair cross-subsidy – that the Board should maintain the status quo rate of \$1.85/MWh.
110. In effect, this amounts to request that this OEB panel ignore or reject the results of the carefully considered Board panel’s decision in the ETS Decision, informed by numerous experts, that a cost-based ETS rate is the preferred approach.
111. APPrO submits that there is insufficient evidence on the record in this case to cause such a dramatic departure from the ETS Decision.
112. Such an approach would not be in the public interest. It would not benefit the predictability and consistency of regulatory decision making. Rather, it would undermine confidence in prior OEB decisions.

113. At worst, it would incent parties to revert to their original polarized positions (as illustrated in the ETS Decision), rather than accept a principled cost-based approach to setting the ETS rate.
114. In the 2013 Proceeding, APPrO's position was that Ontario consumers as well as the province benefits most from a reduction of the ETS rate to zero. The IESO agreed with APPrO in this regard. This benefit to Ontario consumers would more than offset the reduction in direct ETS revenues through increased efficiencies in the IESO administered market. This was detailed in APPrO's and the IESO's submissions in the 2013 Proceedings, where APPrO demonstrated that ETS rate elimination provides the greatest overall benefit to Ontario.<sup>63</sup>
115. APPrO's position was that eliminating the ETS tariff would bring the all-in export costs payable by Ontario exporters more in line with the costs payable by exporters in neighbouring jurisdictions and it will best promote the efficient operation of the wholesale market, specifically, efficiency in the generation, sale and transmission of electricity, and efficiencies and cost savings in managing surplus baseload generation.<sup>64</sup> In addition, APPrO submitted that exporters are electricity ratepayers, and the Board must consider the rate impacts of any ETS tariff change on these customers.<sup>65</sup>
116. However, in APPrO's view, it is not reasonable for parties to ignore the outcome of the ETS Decision, and to otherwise maintain their original position from before that proceeding.

**VIII. USE OF THE THREE-YEAR ROLLING AVERAGE METHOD TO FORECAST 2020 EXPORT VOLUMES TO CALCULATE THE 2020 ETS RATE**

117. Despite the compelling reasons why the rates should have been set at zero dollars, the Board panel in the ETS Decision decided that there was insufficient evidentiary support to warrant the elimination of the ETS rate, so it ordered for Hydro One to conduct a cost

---

<sup>63</sup> EB-2012-0031 – Submissions of APPrO on ETS Rate dated March 22, 2013 at paragraph 46-47.

<sup>64</sup> *Ibid* at paragraph 1.

<sup>65</sup> *Ibid* at paragraph 15.

allocation study and propose a cost-based ETS rate. Subsequently, the Elenchus Study was prepared.

118. As detailed above, after considering various scenarios and undergoing sensitivity analysis, Elenchus recommended one specific cost allocation methodology for setting the ETS rate.
119. APPrO believes that the cost-based methodology recommended by Elenchus is the appropriate way to calculate the ETS rate in 2020.
120. Using this recommended methodology with one suitable adjustment, discussed below, the appropriate ETS rate for 2020 is calculated to be \$1.21/MWh.
121. The single adjustment relates to the calculation of the billing determinates for the ETS rate in 2020. APPrO submits that the correct charge determinant for 2020 forecasted export volume should be 19,403,359 MWh, which is calculated using the three-year historical rolling average volume of electricity exported from Ontario over its transmission system.
122. Hydro One calculated the three-year historical rolling average volume to be 19,403,359 MWh for 2020.
123. APPrO notes that another way to calculate the three-year rolling average for 2020 is to use 2017 and 2018 actuals, and 2019 volume forecasted based on the known actuals from January to September 2019, which Hydro One stated as 15,138,054 MWh<sup>66</sup>. Assuming the rate of exports is steady throughout the year, we can estimate what the final actual export volume in 2019 will be. Based on this calculation, the volume for the whole year of 2019 would be 20,184,072 MWh and the three-year historical rolling average would be 19,434,045 MWh. Using 19,434,045 MWh as the charge determinant, the ETS rate for 2020 would still be calculated to be \$1.21/MWh. This change does not result in a material difference to the resulting ETS rate in APPrO's submission.
124. The three-year rolling average forecasting methodology is appropriate because it is already being used by Hydro One when forecasting ETS revenue in 2020. In its interrogatory

---

<sup>66</sup> EB-2019-0082 Exhibit J8,4 page 1 of 1.

response to VECC-55,<sup>67</sup> and also during cross-examination of Mr. Andre, Hydro One confirmed that it is calculating the 2020 revenue requirement using a forecast of 2020 export revenues derived from a forecast of 2020 export volumes calculated using a three-year rolling average methodology.

125. In response to Undertaking JT 1.36 – Q1 (a), Hydro One explained the benefits of using this three-year rolling average methodology as being able to capture the up and down fluctuations of prior years for a value being forecast.<sup>68</sup>
126. Hydro One has historically grossly under-estimated export volumes. In 2015, the actual export volumes were 23,138,052 MWh. However, Hydro One’s forecasted ETS export volumes were 16,700,000 MWh, which equals to an under forecast of about 38.55%.<sup>69</sup>
127. When Hydro One was asked by Vulnerable Energy Consumer Coalition (“VECC”) during the interrogatories to provide a schedule setting out the calculation of the export volumes for 2020, 2021 and 2022 as used in the Updated Application, Hydro One calculated the export volume for 2020 to be 19,403,359 MWh.<sup>70</sup>
128. However, Hydro One’s calculation of the ETS rate of \$1.25/MWh assumes the allocated 2020 export revenue requirement of \$22,080,668 is collected from an export volume of 18,800,000 MWh.<sup>71</sup>
129. At the Oral Hearing, Hydro One explained that 18,800,000 MWh is a 2018 value of the exports flowing through out of Ontario. The megawatt-hour data is used as the charge determinant to calculate the rates. They confirmed that the volume in megawatt-hours uses 2018 data while the revenue requirement uses a 2020 number.<sup>72</sup>

---

<sup>67</sup> EB-2019-0082 – Exhibit I, Tab 10, Schedule 55 filed August 2, 2019, at Page 1 of 1.

<sup>68</sup> EB-2019-0082 Exhibit JT 1.3-Q1 filed on August 21, 2019 at page 2 of 3.

<sup>69</sup> Transcript Volume 7 at page 199 lines 10 to 24 and EB-2019-0082 Exhibit JT 1.36-Q1 Page 1 of 3 and EB-2019-0082 Exhibit I2, Tab 4, Schedule 1 Page 3 of 4.

<sup>70</sup> EB-2019-0082 – Exhibit I, Tab 10, Schedule 55, Page 1 of 1.

<sup>71</sup> EB-2019-0082 – Exhibit JT 1.36-Q1 page 2 of 3.

<sup>72</sup> Transcript Volume 7 at page 188 lines 5 to 28 and page 189 lines 1 to 20.

130. Notably 2018 is the lowest export volume year recorded on the evidentiary record. It was an exceptionally low year, driven by a broad range of market forces that are unlikely to recur in 2019 or 2020.
131. Hydro One goes on to explain that they believe using the 2018 data is the best forecast for 2020 because there has been a decreasing trend in export volumes and therefore they believe the three-year rolling average method is not appropriate and is only good when there are ups and downs in trend.<sup>73</sup>
132. However, contrary to their belief, when asked to provide an update to the actual export volumes covering the period of January to September for 2017, 2018 and 2019, it is evident that the 2019 actual export volume is greater than that of 2017 and of 2018. This means the trend is no longer decreasing. The table is reproduced below<sup>74</sup>:

<b>January - September</b>	<b>Actual Export Volume (MWh)</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	14,488,262	14,009,258	15,138,054

133. There are two conclusions to be drawn from the above table.
134. First, in comparing the same period of the year (i.e. January to September), the Actual Export Volume for 2019 is already more than 1 million MWh greater than the Actual Export Volume for 2018. The evidence is that the three-year declining trend is on track to end, with an increase in export volumes again in 2019.
135. Second, based on the assumption that the rate of exports is steady throughout the year, we can estimate what the final actual export volume in 2019 will be. Based on this calculation, it would result in a total of 20,184,072 MWh for the whole year of 2019. Notably, the 2019

---

<sup>73</sup> Transcript Volume 7 at page 198 lines 14 to 28 and at page 199 lines 1 to 3.

<sup>74</sup> EB-2019-0082 Exhibit J8,4 page 1 of 1.

forecasted volume using a three-year rolling average which Hydro One calculated is 20,092,015 MWh (a difference of only 92,057MWh).

136. APPrO submits that forecasted 2020 annual export volumes using Hydro One's long standing three-year rolling average methodology results in a much more realistic forecast of export of volumes in 2020.
137. As such, APPrO's view is that there is no reason for Hydro One to avoid using a three-year rolling average to forecast 2020 export volumes and APPrO believes that 19,403,359 MWh, i.e. the three-year rolling average export volume, is the correct number to use when calculating the ETS rate as well as when calculating export revenues.
138. There appears to be an incentive for Hydro One to over estimate export volumes because any additional revenue from the exports will flow to Ontario consumers.

*“MR. VELLONE: Can I ask maybe counter-factual to that, which is, if you use 18.8 to set the ETS rate at \$1.85 but the volumes actually come in at what you forecasted it to be at 19.4, exporters will end up paying more; isn't that right?”*

*MR. ANDRE: They will, and that additional revenue will flow back to Ontario consumers.*

*MR. VELLONE: More than what the cost allocation study said they should pay. They would actually overcontribute as against the costs that are attributable to their export service. Is that right?”*

*MR. ANDRE: Yes. Just the same that if export volumes -- which in that interrogatory -- if I could just go to that interrogatory that had the volumes. [...].”<sup>75</sup>*

---

<sup>75</sup> Transcript Volume 7 at page 197 lines 27 to 28 and page 198 lines 1 to 12.



139. However, on the contrary, if the revenues are less than the amount forecasted, then there would be money owing to Hydro One and only domestic customers pay that balance.<sup>76</sup>
140. Hydro One states there is a variance account that tracks any difference. Hydro One's Excess Export Service Revenue (Account 2405) variance account ("Variance Account") captures the differences between forecast export service revenue approved by the Board and the actual export service revenue. The Variance Account incentivises Hydro One to under-forecast their export volumes as any additional revenue from the exports will flow to Ontario consumers as explained above. This places exporters in a disadvantaged position. It was also explicitly stated at the Oral Hearing:

*"MR. VELLONE: Are generators neutral -- made neutral by that variance account? I don't think so.*

*MR. ANDRE: Ontario consumers are made neutral."*<sup>77</sup>

141. Hydro One relies on the Variance Account to justify their inaccurate and under-forecasted export volumes by stating that any differences in actual revenue will be captured.<sup>78</sup> However, the Variance Account is simply aiding a social redistribution of wealth when Hydro One under forecasts their export volume, over collect from exporters, capture the difference in actual revenue and distribute the additional revenue to Ontario consumers. This creates an unfair circumstance.
142. Hydro One should not be allowed to grossly under forecast export volumes to the advantage of Ontario consumers and detriment of exporters.

#### **IX. OEB STAFF SUBMISSIONS**

143. OEB Staff filed their submissions on December 11, 2019 ("Staff Submissions").
144. At page 140 of the Staff Submissions, OEB Staff asserts that:

---

<sup>76</sup> Transcript Volume 8 at page 15 lines 13 to 24.

<sup>77</sup> Transcript Volume 7 at page 197 lines 3 to 5.

<sup>78</sup> Transcript Volume 8 at page 15 lines 3 to 8.

*“Hydro One noted the following deficiencies in the recommended cost allocation study:*

- *Rather than deriving a methodology to allocate shared assets between domestic and export customers, as a typical cost allocation study would do for shared assets, the recommended study excluded allocating shared capital costs to export customers completely even though those assets do serve export customers*
- *No jurisdictional review was done such that one can understand how ETS rates are determined in other jurisdictions”<sup>79</sup>*

145. It is not credible, at this stage in the process to argue that the lack of a jurisdictional scan in the Elenchus Study is a meaningful deficiency. In APPrO’s submissions, context matters. As described in Section II above, prior to making the ETS Decision, as part of the 2013 proceeding, the OEB panel had been informed by a comprehensive jurisdictional review that was completed in the CRA Study. In making the ETS Decision, the OEB panel ultimately rejected the methodologies used in numerous other jurisdictions, including those that would set the ETS rate to \$0, to facilitate a more efficient and competitive wholesale electricity market (which was also recommended by the IESO). Instead, the OEB panel adopted the recommendations from Elenchus to conduct a proper cost allocation study and directed Hydro One to propose a proper cost-based ETS rate.
146. To suggest that another jurisdictional scan is needed now, after the Elenchus Study has been completed, and before a cost-based ETS rate has even been implemented represents a spurious attempt to further defer the application of cost-based principles to set an ETS rate in the manner that was contemplated in the ETS Decision.
147. APPrO submits that OEB Staff has failed to cite any compelling evidence to suggest that the lack of a jurisdictional scan and/or the decision in the Elenchus Study to not allocate shared capital costs to export customers is a deficiency.

---

<sup>79</sup> EB-2019-0082 – OEB Staff Submissions filed December 11, 2019 at page 140.

148. At no time does Hydro One go so far as to characterize the decisions in the Elenchus Study to not allocate shared assets to export customers or to conduct a jurisdictional scan as a “deficiency”.
149. Hydro One does agree with Mr. Rubenstein that the Elenchus Study does make a number of specific recommendations to arrive at the recommended cost-allocation methodology for a cost-based ETS rate. Hydro One also points out that the sensitivities to changes in certain assumptions were also modelled as part of the Elenchus Study. This is not the same as suggesting that Hydro One saw these as fatal deficiencies in the Elenchus Study.
150. Rather, when asked if they generally agree with the cost-allocation methodology set out in the Elenchus Study, Hydro One’s witness Mr. Li said “we take no issues with the Elenchus Study.”<sup>80</sup>
151. This is also why Hydro One relied directly on the Elenchus Study and proposed to set an appropriate cost-based ETS rate in their 2015 rate application of \$1.70/MWh.
152. This was confirmed by Hydro One explicitly in its Proposed Settlement Agreement in EB-2014-0140:

*“Hydro One proposed to adopt an Export Transmission Service (“ETS”) Rate of \$1.7 per MWh for 2015 and 2016 as recommended in the Elenchus Study filed as Attachment 1 to Exhibit H1, Tab 5, Schedule 1.”<sup>81</sup>*

153. It was further confirmed by Hydro One in its undertaking response that:

*“As stated on page 535 of the pdf document, Hydro One proposed to adopt the recommendation of the Elenchus report filed with the Application, Evidence and Settlement Agreement (which was for a \$1.70 rate).”<sup>82</sup>*

---

<sup>80</sup> Transcript Volume 7 at page 176, line 12.

<sup>81</sup> Settlement Proposal at page 24 of 27.

<sup>82</sup> EB-2019-0082 Exhibit J7.7 filed November 11, 2019 at Page 1 of 1.

154. To suggest now that Hydro One identified major deficiencies in the Elenchus Study is simply not credible. Hydro One filed the Elenchus Study in direct response to the ETS Decision. Hydro One takes no issue with the results of the Elenchus Study. And Hydro One based its 2015 cost-based ETS rate proposal directly on the results of the ETS Study.
155. If OEB Staff or SEC or any other party disagrees with this well justified and explained recommendations as set out in the Elenchus Study, that party could have retained their own cost allocation expert to prepare a competing study.
156. The fact that no party chose to prepare a competing cost allocation study is fatal to their submissions that an alternative approach is justified. An alternative approach is not justified, based on the Elenchus Study recommendations.
157. Rather, these parties are using this spurious concern to suggest that the OEB should once again defer setting an appropriate cost-based ETS rate of \$1.21/MWh.
158. APPrO submits that the decision not to allocate shared capital costs to export customers is not a deficiency – rather it is a core and well defended component of the Elenchus Study recommendations.
159. APPrO has already fully discussed this well defended and reasonable assumption starting at paragraph 78 above.
160. Unlike other customers in a typical cost allocation study for shared assets, exporters are unique because they are in no way considered by Hydro One when it is planning for its transmission system.
161. In addition, and as mentioned above in paragraphs 79 and 80, the evidence is that shared assets in question are put in place solely to meet the needs of domestic customers. Exports is an interruptible service, which means that they receive a lower quality of service and lower priority compared to domestic customers.

162. If exporters were to be required to pay for the Hydro One shared assets, then a necessary corollary of that decision would be that Hydro One would need to modify its system planning to now take into account exports.

**X. CONCLUSION**

163. The Board has full evidence and factual basis to set a cost-based ETS rate to \$1.21/MWh for 2020 and to maintain this rate for 2021 and 2022. The adoption of this ETS rate will have minimal impact on other ratepayers.
164. In the ETS Decision, the Board had ordered Hydro One to prepare a cost allocation study and to propose a cost-based ETS rate. The expert in cost allocation and rate design, Mr. Roger, prepared the thorough Elenchus Study with a sensitivity analysis. He ultimately recommended a definitive cost allocation methodology to establish a cost-based ETS rate consistent with the ETS Decision. As explained in this submission, this is an appropriate cost allocation methodology to be used for establishing the ETS rate.
165. In addition to using the recommended cost allocation methodology, the evidence has also demonstrated that using the three-year rolling average methodology for the purposes of forecasting export volumes in 2020 when calculating the billing determinants for the ETS rate is appropriate as detailed in these submissions. To summarize, the reasons are:
- (i) This methodology is already used by Hydro One to forecast export volumes in 2020 for the purposes of forecasting export revenues;
  - (ii) It does not make sense to calculate export revenues using one forecast and using a different forecast to set billing determinants for 2020; and
  - (iii) This methodology is a better forecast of the export volumes in 2020, as evidenced by year-to-date actual export volumes.
166. Therefore, the appropriate cost-based ETS rate for 2020 is calculated using the recommended methodology by the Elenchus Study and using this three-year rolling average to forecast export volumes for 2020 to calculate the billing determinants for the ETS rate.

167. The evidence also shows that exporters are unique and as recommended by the Elenchus Study, no costs for shared assets should be allocated to exporters. There is no credible evidence filed by any party to suggest that costs for shared assets should be allocated to exporters.
168. In addition, no party in this proceeding has retained any cost allocation expert to challenge the Elenchus Study and its recommended methodology. Hence, any allegations by other intervenors that attempt to undermine the implementation of the ETS Decision and the Elenchus Study are spurious and have not been substantiated by any evidence.
169. APPrO respectfully submits that the Board should not delay its decision to correct the ETS rate to be more fair and better in line with cost allocation principles.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED,**

*Original signed by John A. D. Vellone*

John A. D Vellone  
Counsel for Association of Power Producers of Ontario