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BY EMAIL AND RESS

August 2, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2021-0243 – Generic Hearing on Uniform Transmission Rates-Related Issues and the Export Transmission Service Rate – Transcribed Presentation Day – Written materials for the presentations by Hydro One, Charles River Associates and Elenchus Research Associates

Pursuant to Procedural Order No. 2 dated April 1, 2022, please find enclosed Hydro One Networks Inc. (Hydro One)'s presentation.

Hydro One is also filing and serving, on behalf of Charles River Associates (CRA) and Elenchus Research Associates (Elenchus), the presentations prepared by CRA and Elenchus for the Presentation Day.

Electronic copies of the presentations have been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,



Stephen Vetsis

cc. EB-2021-0243 parties (electronic)



OEB Generic Hearing (EB-2021-0243) Phase 1 - Export Transmission Service Rate

Presentation to OEB Panel

August 4, 2022

OVERVIEW

1. Procedural Context
2. ETS Rate Setting Context
3. History of the ETS Rate
4. Relationship between ETS and UTRs
5. Hydro One's Position
6. Supporting Reports

- **Hydro One's 2020-2022 Tx Rate Application (EB-2019-0082)**
 - Hydro One proposed to maintain current ETS rate of \$1.85/MWh
 - OEB found the use of shared network facilities by exporters should be considered in setting ETS rates
 - OEB directed Hydro One in its next rebasing application to provide:
 - ETS study using a cost allocation methodology that includes the allocation of shared network costs to exporters
 - Updated review of ETS rates in other jurisdictions, the rationale behind those rates and market implications
 - Recognizing IESO's responsibility for the market, OEB expected Hydro One to consult with IESO and OEB staff on the jurisdictional review

PROCEDURAL CONTEXT (2)

- **Hydro One's joint Tx/Dx rate application (JRAP) filed August 2021**
 - Hydro One has assumed no change to current ETS rate of \$1.85/MWh
 - Provided cost allocation report from Elenchus, jurisdictional review report from CRA and market implications report from IESO
- **JRAP Procedural Order No. 1 issued September 2021**
 - OEB decided to commence a separate, generic proceeding on its own motion to review issues relating to UTRs
 - ETS rate to be dealt with as Phase 1 of generic proceeding
 - Hydro One's evidence on ETS from JRAP, including Elenchus, CRA and IESO reports, to be considered in the generic proceeding
 - OEB asked for clarification of Hydro One's and IESO's views

ETS RATE SETTING CONTEXT

- ETS is transmission service relating to use of IESO-controlled grid for transmission of energy out of IESO-control area and into neighbouring transmission systems, for which charges must be collected by IESO
- Export customers only pay the ETS rate; they do not pay any UTR charges
- **Ch. 10, s. 4 of Market Rules** requires IESO to collect charges for ETS from each transmission customer that uses IESO-controlled grid for transmission out of IESO-control area
- **Ch. 10, s. 4.5 of Market Rules** requires rates and charges, if any, for ETS to be established by OEB from time to time pursuant to OEB Act
- IESO remits ETS revenue to Hydro One as the only Ontario transmitter that owns and operates intertie facilities accounted for in ETS rates
- Forecast ETS revenues offset Hydro One's Tx revenue requirement (~\$37M), which reduces the Network Uniform Transmission Rate (UTR) paid by Ontario transmission customers.

HISTORY OF THE ETS RATE

- OEB determined in May 2000, on an interim basis, that ETS rate should be fixed at \$1.00/MWh at market opening (RP-1999-0044)
 - Considered a reasonable compromise among competing interests
 - Hydro One directed to monitor and report in next rate proceeding on export market functioning and whether ETS rate needed review
- In EB-2006-0501, Hydro One filed jurisdictional review of ETS rates prepared by R.J. Rudden
 - OEB approved settlement agreement maintained ETS rate at \$1.00/MWh
 - Settlement Agreement identified IESO as party to prepare ETS rate study
- In EB-2010-0002, IESO filed ETS rate study prepared by CRA and proposed status quo from alternatives reviewed
 - OEB found an additional study was needed to identify and assess a range of potential rates, but increased ETS rate to \$2.00/MWh for 2011 and 2012

HISTORY OF THE ETS RATE

- In EB-2012-0031, IESO filed a further ETS rate study prepared by CRA
 - IESO noted that elimination of the ETS tariff would best promote efficient operation of the wholesale electricity market
 - OEB's decision directed Hydro One to include in its next Tx rate application a proposal for an appropriate cost-based ETS rate, based on a cost allocation study
- In EB-2014-0140, Hydro One filed an ETS cost allocation study prepared by Elenchus, which recommended \$1.70/MWh for 2015/16 as reflective of cost
 - OEB approved a settlement agreement under which parties agreed to an ETS rate of \$1.85/MWh, being the mid-point between the Elenchus recommendation and then current rate of \$2.00/MWh
- OEB approved continuation of the rate at \$1.85/MWh in subsequent Hydro One Tx revenue requirement proceedings, most recently in EB-2019-0082
- **Current ETS rate therefore results from settlement and is not entirely based on cost-allocation**

RELATIONSHIP BETWEEN ETS AND UTRs

- The ETS rate impacts both costs for exporters and Network transmission rates for customers in Ontario
- ETS revenues reduce the Network transmission charges paid by Ontario customers
- ETS rates have a neutral impact on Hydro One's transmission revenues due to application of ETS revenues as an offset to Tx revenue requirement collected from Ontario customers

HYDRO ONE'S POSITION

- Hydro One's view is that the ETS is intended to recover the cost of export customers' use of the transmission system from which they benefit
- The ETS rate limits cross-subsidization between Ontario transmission customers and export customers
- In the ETS rate-setting context, it is Hydro One's view that the primary consideration should be on setting an ETS rate that results in the lowest overall costs and which provides the greatest overall benefits to the Ontario electricity system as a whole
- Hydro One defers to the IESO's expertise and responsibility to advise on market implications and to the OEB's expertise and responsibility for setting a rate that appropriately considers the various competing interests affected by the ETS rate

SUPPORTING REPORTS

- In response to OEB's direction from EB-2019-0082, Hydro One engaged two experts and coordinated with the IESO in order to file the following 3 reports to assist the OEB:

Expert	Purpose of work
Elenchus	Engaged to supplement the May 7, 2014 Elenchus ETS cost allocation study by including (i) methodology for allocating shared network costs to exporters; (ii) scenarios to reflect that exporters do not receive the same priority access as domestic service; and (iii) consideration of the OEB's approach to allocating common costs for distribution pole attachments
CRA	Engaged to update its May 16, 2012 ETS jurisdictional review to reflect: (i) current ETS rates in other jurisdictions; (ii) the rationale for those rates; and (iii) how market implications were considered in those jurisdictions
IESO	Coordinated with IESO for IESO to provide commentary on the impact on Ontario's market of changes in the ETS.

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