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BY EMAIL AND RESS

August 5, 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 – Undertaking Response JT 1.03

Further to Hydro One Networks Inc. (Hydro One)'s letter dated August 4th, 2022 enclosing undertaking responses, please find enclosed JT 1.03 in which the response is provided in part by Hydro One and in part by the IESO.

An electronic copy of the undertaking response has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,



Stephen Vetsis

cc. EB-2021-0243 parties (electronic)

UNDERTAKING JT-1.3

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Reference:

Not provided.

Undertaking:

Hydro One to work with IESO (a) to provide a step-by-step explanation of how the disbursement of the TRCA flows into customer bills; (b) to explain how this compares to the treatment of the ETS rate and how it flows through to customer bills; to explain the difference and allocation between the TRCA and the ETS; (c) to respond using layman's language, as opposed to the language of the market rules; (d) to explain the why of this disbursement.

Response:

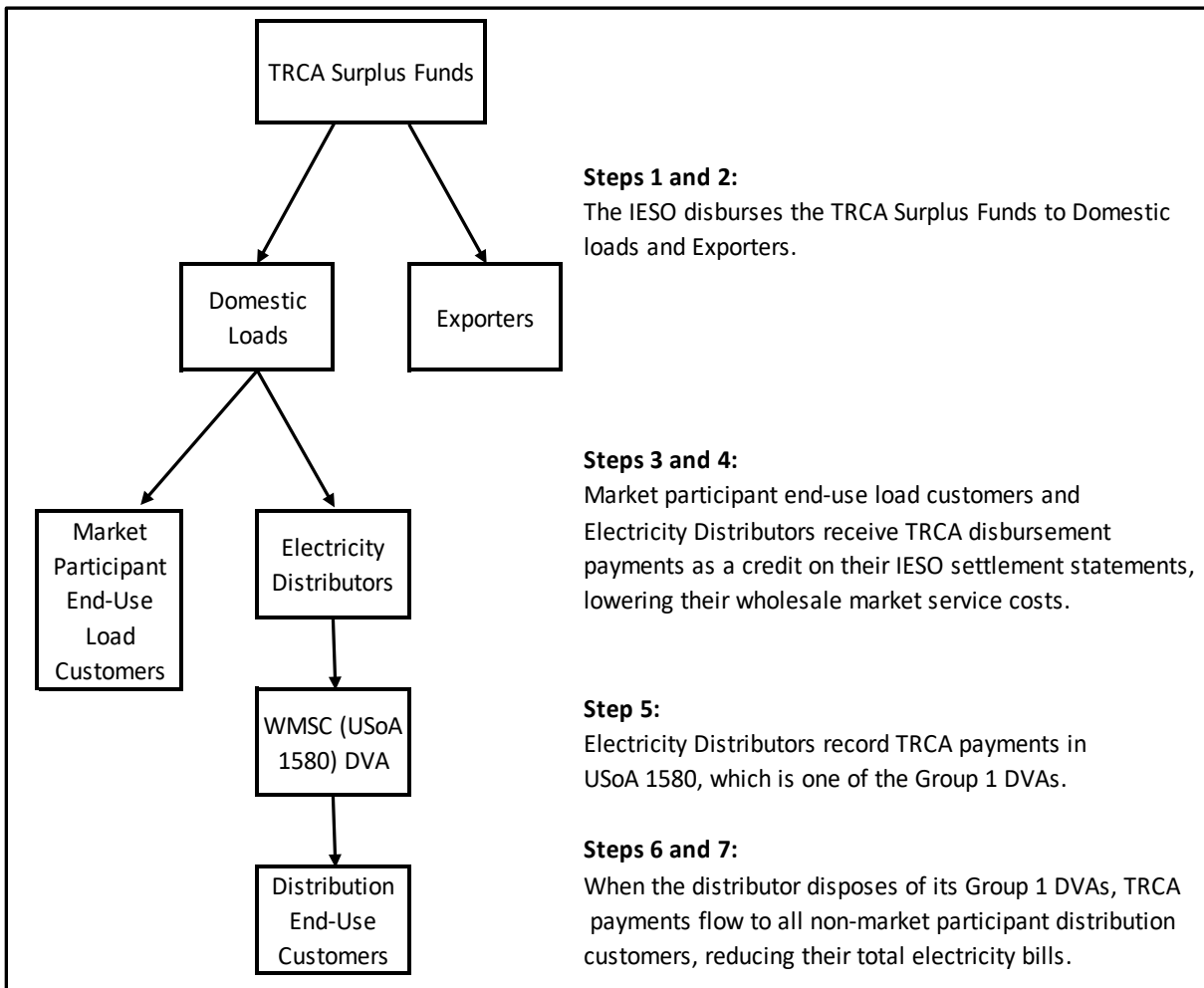
a) This response is provided in part by Hydro One and in part by the IESO, as follows.

Response from Hydro One:

TRCA Disbursement - Overview

The IESO disburses the TRCA Surplus Funds amongst market participants in two classes - loads and exporters. These disbursements are applied as a direct credit to market participants on their IESO settlement statements to offset their wholesale market service costs. In the case of those load customers that are electricity distributors, such as Hydro One Distribution, these credits reduce the amount of wholesale market service costs they pass through to their non-market participant distribution customers, thereby lowering those customers' total electricity bills. Electricity distributors allocate these amounts to all distribution customer rate classes based on the electricity usage (kWh) of each class. The allocation by kWh to distribution customers does not distinguish between Class A/B or non-Regulated Price Plan/Regulated Price Plan. As such, the TRCA credits benefit all customers equally in proportion to their electricity usage.

A flow chart and a detailed step-by-step explanation is provided below.



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TRCA Disbursement - Detailed Steps

Response from IESO:

A step-by-step explanation of how congestion rents flow to customer bills is presented below.

1. As explained in response to OEB Staff Interrogatory 35(b), the IESO deposits congestion rents collected via the Intertie Congestion Price (ICP) in the TRCA along with the proceeds from the Transmission Rights (TR) Auction. The IESO makes payments to TR holders from the TRCA on a monthly basis.
2. The IESO reviews the TRCA balance on a semi-annual basis and, when the balance exceeds the reserve threshold of \$20 million by at least \$5 million, the IESO disburses the surplus funds as follows:

Witness: Stephen Vetsis, Clement Li, Tom Chapman, Jason Kwok

- 1 a) Any surplus is first divided between Ontario load and exporter classes based on the
 2 proportion of total provincial transmission service charges and total export
 3 transmission service charges collected from the market during the preceding six
 4 months. Since the IESO implemented revisions to the TRCA disbursement
 5 methodology in June 2021, the result is that approximately 98% of any surplus is paid
 6 out to Ontario loads and approximately 2% is paid to exporters.
- 7 b) After the surplus is divided between loads and exporters, the members of each class
 8 are then settled based on the proportion of energy withdrawn over the preceding six
 9 months or as directed by the IESO Board.
- 10
- 11 3. Market participant end-use load consumers and electricity distributors receive their share
 12 of the TRCA disbursement as a credit on their IESO settlement statement. In the case of
 13 an electricity distributor, this reduces the costs it passes through to its own customers'
 14 bills.

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 16 *Response from Hydro One:*

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- 18 4. As noted by the IESO in point 3 above, electricity distributors receive TRCA disbursement
 19 payments from the IESO as "Charge Type 102"¹ on their IESO settlement statements.²
- 20
- 21 5. Electricity distributors record TRCA disbursement payments (credit to customers) in
 22 Account 1580 (Wholesale Market Service Charges). Uniform System of Accounts (USoA)
 23 Account 1580 is one of the Group 1 Deferral and Variance Accounts (DVA). As per the
 24 OEB's Accounting Procedure Handbook (APH)³ an electricity distributor is required to use
 25 Account 1580 to record:
- 26 i. The amounts charged by the IESO (based on the settlement statement) for
 27 wholesale market service charge types specified by the OEB⁴ (including the credit
 28 charge type 102);
- 29 ii. The amounts billed to distribution customers using the OEB-approved Wholesale
 30 Market Service Charge Rate⁵; and
- 31 iii. Other wholesale market service charges.
- 32

¹ Per IESO Charge Type and Equation Document, Issue 78.0 – March 2, 2022, page 39

² Note that Hydro One Transmission does not receive any disbursements from TRCA payments.

³ The OEB's Accounting Procedures Handbook for Electricity Distributors, issued on December 2011

⁴ The OEB's APH, Article 490 Appendix A – Accounting for Specific Items Retail Services and Settlement Variance, page 42

⁵ Hydro One Distribution's 2022 Rate Order (EB-2021-0032), Schedule A, under Regulatory Component – Wholesale Market Service Rate (WMS) – not including CBR of \$0.0030/kWh

- 1 6. As per the OEB's Filing Requirements for Electricity Distribution Rates Applications
2 Chapters 2 and 3, an Electricity Distributor's Group 1 DVA balances are expected to be
3 reviewed and disposed of as part of its distribution rate applications.⁶
4
- 5 7. When an electricity distributor disposes of its Group 1 DVA balances, the TRCA
6 disbursement payments will flow to all of its distribution customers who are not
7 wholesale market participants, including Regulated Price Plan (RPP), non-RPP, Class A and
8 Class B customers. These distribution customers' total electricity bills are reduced as the
9 TRCA disbursement payments offset the wholesale market service costs the electricity
10 distributor passes through to them. TRCA disbursement payments are allocated to all
11 distribution customer rate classes based on the electricity usage (kWh) of that class.
12 Distribution end-use customers who are wholesale market participants receive these
13 TRCA disbursement payments directly from the IESO via the IESO settlement statement
14 as described in step 3 above.

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16 b) *Response from Hydro One:*

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18 **ETS Revenue Disbursement - Overview**

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20 ETS Revenue is collected by the IESO and remitted to Hydro One Transmission as the only Ontario
21 Transmitter that owns and operates the interties. This ETS revenue is treated as "Other Revenue"
22 and is applied as a reduction to Hydro One's revenue requirement for the Network rate pool.
23 Since transmission rates in Ontario are established on a uniform basis, Hydro One's transmission
24 rates revenue requirement contributes to the total revenue requirement to be collected through
25 the provincial Uniform Transmission Rates (UTRs). ETS revenue flows into a customer's bill
26 through a reduction of network UTR for Transmission-connected end-use customers, or through
27 network Retail Transmission Service Rates (RTSR) for all distribution customers (i.e. all customer
28 rate classes, Class A/B, RPP, non-RPP, market participants and non-market participants), which
29 are both transmission charges, remitted to Hydro One Transmission. This applies to customers
30 whether served by Hydro One Distribution or any other distributor in Ontario. The settlement of
31 UTR and RTSR does not distinguish between non-market participants/market participants, Class
32 A/B customers or non-RPP/RPP customers and, therefore, the benefit of the reduction to UTRs
33 due to ETS revenue is the same for each of those types of customers.

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35 The key differences between ETS revenue and TRCA disbursement payment are:

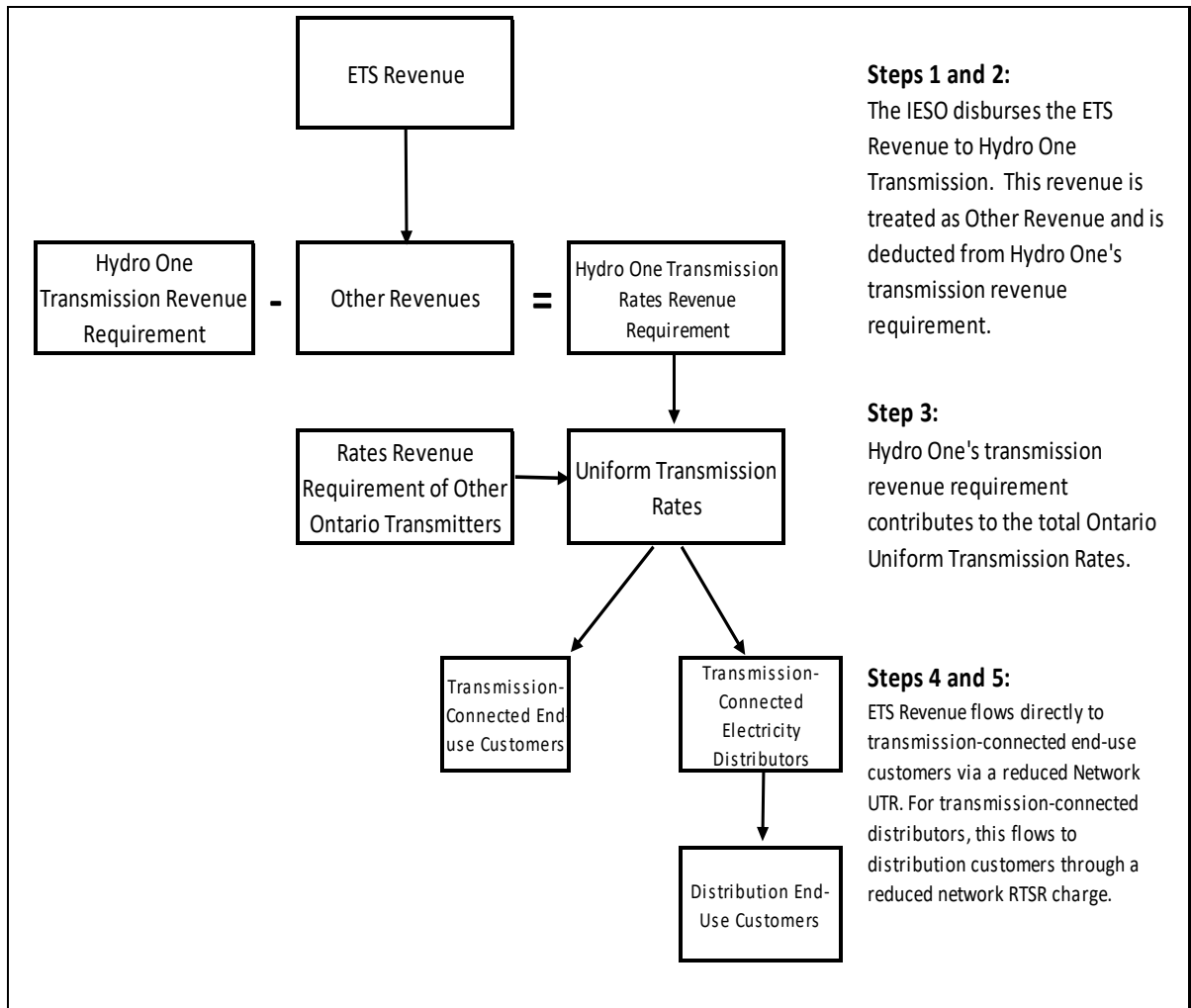
⁶ Group 1 DVA balances are related to pass-through costs for distributors and these amounts do not offset/reduce Hydro One Distribution's revenue requirement or base distribution rates.

- 1 • ETS revenue flows into a customer's bill through a reduction of UTR (Transmission-connected
2 end-use customers) or RTSR (Distribution end-use customers), which are transmission
3 charges, remitted to Hydro One Transmission.
- 4 • The TRCA disbursement payment flows into a customer's bill through a wholesale market
5 service credit amount on an IESO settlement statement (for a market participant) or through
6 reduced wholesale market service charges (for a non-market participant distribution
7 customer).
- 8 • TRCA disbursement payments have no impact on transmission charges as they are solely used
9 to offset IESO's wholesale market service charges. Hydro One Transmission's rates revenue
10 requirement, which contributes to the UTRs, is not affected by TRCA disbursement payments.
- 11 • From a billing settlement perspective, ETS revenue and TRCA disbursement payments do not
12 cross paths and have no impact on each other.
- 13

14 **ETS Revenue Disbursement – Detailed Steps**

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16 A flow chart and step-by-step explanation of how the ETS revenue flows into customer bills to off-
17 set the Transmission charges (either Uniform Transmission Rates or Retail Transmission Service
18 Rates) is presented below.



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1. As described in the ETS Rate Submissions filed by Hydro One and the IESO on October 14, 2021 (page 11), the IESO collects charges from exporters based on the OEB-approved ETS Rate then in effect, and remits those amounts to Hydro One Transmission, which is the only Ontario transmitter that owns and operates interties.
2. The revenue that Hydro One Transmission requires through transmission rates (i.e. its transmission revenue requirement) has historically been based on its total proposed transmission revenue requirement, offset by various Other Revenues⁷ including the revenues it forecasts to be received from the IESO for providing export transmission service based on the approved ETS Rate then in effect. For example, based on the current ETS Rate of \$1.85/MWh, Hydro One Transmission’s forecasted ETS revenues during the 2023-2027

⁷ Other Revenues are revenues received by Hydro One Transmission from sources other than UTRs.

1 period are approximately \$37M per year. Consequently, Hydro One's transmission rates
2 revenue requirement, which it recovers through UTRs, is approximately \$37M less each year
3 than it otherwise would be without those ETS revenues.⁸

- 4
- 5 3. Since transmission rates in Ontario are established on a uniform basis, Hydro One's
6 transmission rates revenue requirement contributes to the total revenue requirement to be
7 collected through the provincial UTRs. Therefore, ETS revenue reduces the network UTR for
8 all customers in Ontario.
- 9
- 10 4. For a transmission end-use customer that is connected to the IESO grid directly, the ETS
11 revenue flows into its customer bill through a reduced network UTR.
- 12
- 13 5. For a distribution customer that is connected to an electricity distributor such as Hydro One
14 Distribution, the ETS revenue flows into its customer bill through Retail Transmission Service
15 Rates (RTSR). How the RTSR is reduced by the ETS revenue is described below:
- 16 i. A transmission-connected electricity distributor connected directly to the IESO grid
17 pays its transmission charges through UTR.
- 18 ii. The electricity distributor charges its customers RTSR to recover its transmission
19 charges.
- 20 iii. As per the OEB's Filing Requirements for Electricity Distribution Rates Applications
21 Chapters 2 and 3, an Electricity Distributor is required to adjust its RTSR to reflect the
22 latest OEB approved UTR, as part of its distribution rate application. As such, the
23 impact of ETS revenue on UTR has the same impact on a distributor's RTSR, which is
24 a reduction.
- 25 iv. The reduction of RTSR flows to all distribution customers (i.e. all customer rate
26 classes, Class A/B, RPP, non-RPP, and market participants and non-market
27 participants) with the same methodology per the OEB's Filing Requirements for
28 Electricity Distribution Rates Applications Chapters 2 (section 2.8.2 Retail
29 Transmission Service Rates) and 3 (section 3.2.4 Electricity Distribution Retail
30 Transmission Service Rates).

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32 Hydro One notes that while this undertaking response explains how TRCA disbursement payments
33 and ETS revenues flow to customers' bills, other potential market implications/benefits due to
34 changes in the level of ETS rates are not addressed.

⁸ Further information on how ETS revenue impacts Hydro One Transmission's rates revenue requirement and UTR can be found in EB-2021-0110 Exhibits H-5-1 and H-6-1.

1 c) *Response from IESO:*

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3 See the response to (a) above. The provisions that govern the IESO disbursement of any surplus
4 from the TRCA can be found in IESO Market Rules Chapter 9, Section 4.7 and Market Manual 5.5,
5 Section 1.6.27. For Market Rules governing ETS please see Chapter 10, sections 4 and 4.5.

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7 d) *Response from IESO:*

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9 The history of the ICP and Transmission Rights is described in response to Undertaking JT1.11.
10 The purpose of the ICP mechanism was, and remains, to allocate access to interties through the
11 use of a dynamic pricing mechanism that automatically adjusts to changing market conditions and
12 to utilize any surplus generated by that mechanism to offset costs for Ontario consumers. This is
13 achieved through the disbursement of any surplus in the TRCA using the methodology described
14 above which, as noted in response to Undertaking JT1.11, is based on recommendations of the
15 Market Surveillance Panel.