

Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

September 6, 2022

Re: EB-2021-0243 - Generic Hearing on Uniform Transmission Rates - Related Issues and the Export Transmission Service Rate

Dear Ms. Marconi:

In accordance with OEB Procedural Order No. 3 for the above-noted proceeding, please find attached Argument on behalf of Pollution Probe.

Respectfully submitted on behalf of Pollution Probe.



Michael Brophy, P.Eng., M.Eng., MBA
Michael Brophy Consulting Inc.
Consultant to Pollution Probe
Phone: 647-330-1217
Email: Michael.brophy@rogers.com

cc: All Parties (via email)
Richard Carlson, Pollution Probe (via email)

ONTARIO ENERGY BOARD

EB-2021-0243

**POLLUTION PROBE SUBMISSION RELATED TO
PHASE I TO REVIEW AND SET THE
EXPORT TRANSMISSION SERVICE (ETS) RATE**

September 6, 2022

**Submitted by: Michael Brophy
Michael.brophy@rogers.com
28 Macnaughton Road
Toronto, Ontario M4G 3H4
Phone: 647-330-1217**

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1.0 Background and Introduction

1.1 Hydro One Joint Transmission and Distribution Rates Application

Hydro One filed its Joint Rate Application for 2023-2027 transmission and distribution rates (JRAP proceeding) on August 5, 2021.¹ As part of that application, Hydro One filed evidence on the Export Transmission Service (ETS) rate.

1.2 OEB Establishes Generic Proceeding

In Procedural Order No.1 in the JRAP proceeding, the OEB stated that addressing the ETS rate in a separate generic Uniform Transmission Rates (UTR) hearing will provide focus to the issue and facilitate participation by transmitters and other stakeholders without requiring them to intervene in the much broader JRAP proceeding.²

The Ontario Energy Board (OEB) is holding a public hearing on its own motion under sections 19, 21 and 78 of the OEB Act to consider various issues related to Ontario's Uniform Transmission Rates (UTR). The first phase (this phase) of the proceeding is focused on reviewing and setting the Export Transmission Service (ETS) rate. Other UTR related issues will be considered in a subsequent phase or phases of the hearing.

Hydro One and the IESO filed additional ETS material on October 14, 2021 in response to Procedural Order No. 1 of the JRAP proceeding.³

1.3 APPrO Expert Evidence

On March 24, 2022, the Association of Power Producers of Ontario (APPrO) advised the OEB of its proposal to file expert evidence in this proceeding.⁴ APPrO proposed to engage Mr. Travis Lusney and Mr. Brady Yauch of Power Advisory to provide the expert evidence.

APPrO advised that its proposed expert evidence would include a brief summary of the evidence filed on the record in this and prior ETS proceedings. The principal focus of the expert evidence was to prepare a statistical analysis on the sensitivity of Ontario exports to price changes; together with an analysis of the impact of such price changes on intertie congestion revenues and the other ratepayer benefits derived from exports.

As part of Procedural Order No. 2 dated April 1, 2022, the OEB accepted the proposal by

¹EB-2021-0110 - Custom IR Application (2023-2027) for Hydro One Networks Inc. Transmission and Distribution - Application and Evidence

²EB-2021-0110 - Procedural Order No.1, September 17, 2021

³EB-2021-0243 - Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021

⁴ APPrO Letter, Generic Proceeding on UTR-Related Issues and the Export Transmission Service ("ETS") Rate Board File No. EB-2021-0243 ("Proceeding") APPrO Intention to File Expert Evidence

APPrO to file expert evidence in this proceeding.⁵ The OEB agreed that the quantitative analysis proposed by APPrO could be informative in determining the ETS rate.

2.0 Guidance and Direction from the OEB Panel on Submission

In Procedural Order No. 1, the OEB provided an initial Issues list⁶, which was then revised and condensed in its “Decision on Issues List” letter dated January 28, 2022.⁷ At the conclusion of the Presentation Day on August 4, 2022, Ms. Lynne Anderson, OEB Panel Chair, provided guidance and direction on the key issues the Panel would like to see addressed in submissions by the parties.⁸ This guidance is summarized below. Pollution Probe focused its submission on this guidance and believe it captures the principal issues of this proceeding well.

#	Issue Title	Presentation Day Reference
1	ETS Rate and Rationale	“we're expecting that obviously you will cover what rate you think the OEB should set for the ETS rate and the reason for that rate, and likely ranging between the zero dollars to the 6.54 per megawatt per hour.”
2	ETS Term	“we would also find it very helpful to hear about the term you think the OEB should set for that ETS rate.”
3	Principles and Weighting for Setting ETS rate	<p>“It would be also helpful if you were to highlight in your submissions what principles you think we should be weighing when we're setting the ETS rate. And as we're weighing them, what weight should we be giving to those principles?”</p> <ul style="list-style-type: none"> i. Are those generally accepted regulatory principles, and some of which we heard about today?” ii. Are there principles related to what we heard about the FERC order that applies in the States? iii. Should we be looking at just the lowest overall cost to the Ontario market? iv. Should it be who is paid for the transmission assets and that are being used for the exports?”
4	Future Studies and Reports	“And finally, the submissions, I think as we just talked about towards the end, it would be helpful for parties to consider whether further studies or reports by Hydro One or the IESO would be helpful for the future, such as we heard of for, you know, proposals for maybe a different non-fixed rate design for the ETS at some point in the future.

⁵ EB-2021-0110, Procedural Order No.2, April 1, 2022

⁶ EB 2021-0243, Procedural Order No. 1, November 30, 2021

⁷ EB 2021-0243, Decision on Issues List, January 28, 2022

⁸ EB 2021-0243, UTR, Presentation Day Transcript, August 4, 2022, pages 143-144

3.0 Summary of Submission

Below is a summary of Pollution Probe's submission (per issue) based on guidance from the OEB Panel on the 4 key issues.

OEB Panel Issue #1:

ETS Rate and Rationale

Pollution Probe Recommendation:

Reduce the ETS rate to zero

Rationale:

A zero ETS rate will enable the IESO to continue to use exports as an essential tool to manage supply and demand, in addition to generating net economic benefits for Ontario ratepayers. The IESO has estimated that from 2017-2020 these economic benefits have ranged from \$330 to \$520 million annually⁹ and are expected to continue for the foreseeable future.¹⁰

The conclusions of the Power Advisory report are directionally aligned with the IESO, but with lower net economic benefit estimates.¹¹ Power Advisory went a step further and estimated that a zero ETS rate compared to the current rate during the 2018-2021 period would have resulted in an additional \$34 million in net economic benefits to Ontario ratepayers.¹²

We heard from the IESO that a lower ETS rate would reduce operational and technical risks to Ontario's renewable energy fleet through less curtailment and shutdowns.¹³ Increased and steady fleet operating hours will strengthen the capabilities of Ontario's renewable energy supply fleet.

Furthermore, generating electricity using Ontario's low/no carbon emission fleet results in positive environmental benefits to Ontario and its neighbouring U.S. jurisdictions - that would otherwise generate power using materially higher carbon emission fleets.¹⁴ This makes good environmental sense.

The IESO pointed out that an increase in the ETS rate risks weakening the wholesale export energy markets.¹⁵ The corollary is that a reduction should help maintain and strengthen this market. A zero ETS rate reduces administrative costs and moves Ontario one small step closer to a more simplified system, in an otherwise complex market. Simplicity and a reduction of market barriers will also support Distributed Energy Resources (DERs) in alignment with OEB policy.¹⁶

⁹ EB-2021-0243, Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021, Attachment 3, page 9 of 17

¹⁰ EB 2021-0243, Uniform Transmission Rates, Presentation Day Transcript, August 4, 2022, pages 111-112

¹¹ Power Advisory, Expert Report for the market impacts of changes to the ETS Rate Date, May, 2022, page 10

¹² *ibid*

¹³ IESO Presentation, slide 5, bullet 3: "Many baseload assets are not designed to be curtailed regularly resulting in higher outages and greater wear and tear"

¹⁴ EB-2021-0243, IR PP-08

¹⁵ EB 2021-0243, UTR, Presentation Day Transcript, August 4, 2022, page 124, "And that less traders in the future due to less economic opportunity can restrict the release valve that may be needed at times."

¹⁶ OEB, 5-year strategic plan, April 30, 2021; Minister of Energy, OEB Mandate letter, November 15, 2021

OEB Panel Issue #2: ETS term

Pollution Probe Recommendation: 3 to 4 years for the next term; subsequent terms 5 years

Rationale:

The next term should be aligned to allow time for any future changes to the ETS rate approximately 6 months to 1 year in advance of Hydro One submitting its next rebasing application. Practically, this results in a next term of 3-4 years; assuming a 6 month to 1 year stakeholder engagement and OEB approval process. Subsequent terms could then be for 5 years - in sync with Hydro One's rebasing applications.

OEB Panel Issue #3: Principles and Weighting for Setting ETS rate

Pollution Probe Recommendation: Highest weight to net economic and operational benefits

Rationale:

In Pollution Probe's view, the net economic benefits to Ontario ratepayers should lead sound system decision making and not be lost due to arguments solely based on myopic cost allocation or regulatory fairness principles. The IESO estimated that during the 2017-2020 period, the net economic benefits ranged from \$330 to \$520 million annually - with roughly half of the benefits accruing from lower operating costs due to less curtailment and shutdowns.¹⁷ We believe that maintaining and potentially increasing these net economic benefits through a lower ETS should be an overarching consideration for the Panel.

Reducing the operational and technical risks to Ontario's renewable energy fleet from avoided curtailment and shutdowns should also be given important consideration. As the IESO pointed out, Ontario's baseload generating assets were not designed for unsteady interrupted operation.¹⁸ If left unchecked, this will eventually lead to higher costs and reliability issues in the future. We believe increased and steady baseload operations will strengthen the capabilities of Ontario's renewable energy fleet.

Pollution Probe believes modest consideration should also be afforded to the benefit of lower regional carbon emissions from utilizing Ontario's power generation fleet as the preferred alternative to neighbouring U.S. jurisdictions - that would otherwise utilize higher carbon emission fleets.¹⁹ Similar consideration should be assigned to maintaining and strengthening Ontario's wholesale energy export market.

In Section 6.0 below, Pollution Probe has attached some quantitative numbers to this analysis in an effort to be of more assistance to the Panel.

¹⁷ EB-2021-0243, Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021, Attachment 3, page 9 of 17

¹⁸ IESO Presentation, slide 5, bullet 3: "Many baseload assets are not designed to be curtailed regularly resulting in higher outages and greater wear and tear"

¹⁹ EB-2021-0243, IR PP-08

OEB Panel Issue #4:

Future Studies and Reports

Pollution Probe Recommendation: IESO to complete a study on the updated ETS rate

Rationale:

The IESO should undertake a comprehensive study on the benefits, costs and risks of the ETS rate to key stakeholders in order to inform a future ETS rate proceeding. The report should be completed well in advance of any future stakeholder engagement and OEB approval process. More specific objectives are provided in Section 7.0 below.

4.0 OEB Panel Issue #1 - ETS Rate and Rationale

Pollution Probe Recommendation: Reduce the ETS rate to zero

Rationale

4.1 Net Economic Benefits

A zero ETS rate will enable the IESO to continue to use exports as an essential tool to manage supply and demand, in addition to generating net economic benefits for Ontario ratepayers. The IESO has estimated that from 2017-2020 the net economic benefits have ranged from \$330 to \$520 million annually²⁰ and are expected to continue for the foreseeable future (5 to 10 years).²¹ Of these savings, between \$150 - \$240M annually are from avoided nuclear and renewable resource curtailment.²²

The conclusions of the Power Advisory report are directionally consistent with the IESO, but with much lower net economic benefits - since they did not have access to operating cost data.²³ Power Advisory estimated that if the ETS rate were increased from the current rate to \$4.69/MWh during the 2018-2021 period, the net economic benefits to Ontario would be reduced by \$43 million. Power Advisory went a step further and estimated that a zero ETS rate during the 2018-2021 period would have resulted in an additional \$34 million in net economic benefits to Ontario ratepayers.²⁴

“The financial impact to Ontario ratepayers from increasing the ETS rate to \$6.54/MWh would have been a net increase in costs of \$42.6 million over the 2018 – 2021 timeframe. The increase is a result of lower congestion rents, increased curtailment at wind and hydro generators and lower market revenues from selling Ontario power in neighbouring jurisdictions. The net benefit to Ontario ratepayers of lowering the ETS rate to \$0/MWh in that time frame would have been

²⁰ EB-2021-0243, Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021, Attachment 3, page 9 of 17

²¹ EB 2021-0243, UTR, Presentation Day Transcript, August 4, 2022, pages 111-112

²² EB-2021-0243, Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021, Attachment 3, page 9 of 17

²³ Power Advisory, Expert Report for the market impacts of changes to the ETS Rate Date, May, 2022, page 10

²⁴ *ibid*

a reduction in costs of \$33.7 million. The benefit results due to a decrease in curtailment and increased congestion rents.”²⁵

The conclusions from these two reputable organizations are directionally well-aligned. This gives us confidence the net economic benefits to Ontario ratepayers is material if the ETS rate remains the same, is reduced or set to zero.

4.2 Operational and Technical Risks

The IESO advised that a lower ETS rate reduces operational and technical risks to Ontario’s renewable energy fleet from curtailment and shutdowns.²⁶ Increased and steady fleet operations will strengthen the capabilities of Ontario’s renewable fleet.

Pollution Probe believes OEB policy should support export optionality as a safety valve or release mechanism during periods when supply exceeds Ontario demand. This is good public policy that will help avoid unnecessary curtailment and shutdowns - that are costly in both the short and long-term.

4.3 Carbon Emissions

Ontario’s baseload assets are predominately low/no carbon emissions such as nuclear, hydroelectric, wind and solar. Operating these assets results in lower regional carbon emissions that will positively impact both Ontario and neighbouring U.S. jurisdictions - that would otherwise generate electricity using higher carbon emission assets.²⁷ This makes good environmental sense.

4.4 Wholesale Energy Export Trading

The IESO pointed out that an increase to the current ETS rate risks weakening the wholesale energy trading export market through the potential loss of some market traders - this would be difficult to bring back once lost.²⁸ The corollary is a reduction in the ETS rate should help maintain and strengthen this market.

4.5 Simplicity and Administrative Costs

A zero ETS rate reduces administrative costs and moves Ontario one small step closer to a more simplified system, in an otherwise complex market. Simplicity and a reduction of market barriers will also support Distributed Energy Resources (DERs) in alignment with OEB policy.²⁹

²⁵ Power Advisory, Expert Report for the market impacts of changes to the ETS Rate Date, May, 2022, page 10

²⁶ IESO Presentation, slide 5, bullet 3: “Many baseload assets are not designed to be curtailed regularly resulting in higher outages and greater wear and tear”

²⁷ Eb-2021-0243, IR PP-08

²⁸ EB 2021-0243, UTR, Presentation Day Transcript, August 4, 2022, page 124, “And that less traders in the future due to less economic opportunity can restrict the release valve that may be needed at times.”

²⁹ OEB, 5-year strategic plan, April 30, 2021 & Minister of Energy, OEB Mandate letter, November 15, 2021

4.6 General Comments

If the OEB determines there should be an ETS rate greater than zero, Pollution Probe recommends the OEB set the rate lower than the current \$1.85/MWh. A common theme we heard in the proceedings is that an increase in the ETS rate increases operational, technical and other risks, while lowering the ETS rate reduces these risks.

5.0 OEB Panel Issue #2 - ETS Term

Pollution Probe Recommendation: 3 to 4 years for the 1st term; subsequent terms 5 years

Rationale:

The next term should be aligned to allow time for any future change to the ETS rate approximately 6 months to 1 year in advance of Hydro One submitting its next rebasing application. Practically, this results in a next term of 3-4 years; assuming a 6 month to 1 year stakeholder engagement and OEB approval process. Subsequent terms could then be for 5 years - in sync with Hydro One's rebasing applications.

As part of Hydro One's next rebasing application, an OEB approved ETS rate will provide certainty with respect to any forecast ETS revenues (or not) during Hydro One's next application period (2028-2032).

6.0 OEB Panel Issue #3 - Principles & Weighting for Setting the ETS Rate

In an effort to be of assistance to the Panel, Pollution Probe has provided directional qualitative weightings that we believe should be afforded to the principles and rationales that support our recommendation to reduce the ETS rate to zero.

Principle / Rationale	Weight
Net economic benefits to Ontario ratepayers	50%
Reduce operational and technical risk to Ontario's baseload assets from curtailment or shut-down. Enable export optionality as a safety release mechanism. Strengthen the capabilities of Ontario's baseload fleet.	25%
Increase the utilization of Ontario's low/no carbon emission baseload fleet and lower regional carbon emissions	10%
Strengthen Ontario's wholesale energy trading export markets	10%
Simplicity and lower administrative costs	5%
Total	100%

7.0 OEB Panel Issue #4 - Future Studies and Reports

Pollution Probe Recommendation: IESO to complete a comprehensive study on the impacts of the updated ETS rate

Rationale:

Pollution Probe recommends the OEB request the IESO undertake a comprehensive study on the benefits, costs and risks of an updated ETS rate on key stakeholders as outlined below.

- Net economic benefits to Ontario ratepayers that includes operational cost savings
- Technical and operational risks to Ontario's baseload generation fleet
- Impact on the capabilities of Ontario's power generation infrastructure
- Health and outlook of Ontario's wholesale energy trading markets
- Hydro One intertie assets

The report should be completed well in advance of any future stakeholder engagement and OEB approval process on the ETS rate.

8.0 Closing Comments

Pollution Probe found the presentation day and follow-up un-transcribed session to be informative and helpful. More specifically, we found that having the experts present their case helped Pollution Probe and all parties better understand the issues and related impacts. It can be challenging at times to digest large complex issues through materials provided in the detailed regulatory filing and to fully understand the issues, drivers and interactions. Additionally, hearing directly from the Panel on presentation day with respect to their questions and guidance was also helpful to ensure a focused approach.

We would suggest that presentation day for a similar proceeding could be undertaken earlier in the process; possibly in advance of a Technical Conference or even submission of Interrogatories. We believe this could enhance the overall proceeding efficiency.

Pollution Probe commends the OEB for an open, transparent and thorough process that included innovative tools to drive understanding and collaboration for this proceeding.