



THE BOARD OF DIRECTORS

PATRICIA ADAMS
Chair and President
ANN CAVOUKIAN
Executive Director, PBBI, Ryerson University
GLENN FOX
Economist, University of Guelph
ANDREW ROMAN
Lawyer

MAX ALLEN
Producer, CBC Radio
DAVID CAYLEY
Writer and Broadcaster
GAIL REGAN
President, Cara Holdings Inc.
GEORGE TOMKO
Expert-in-Residence in IPSI, University of Toronto

September 6, 2022

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

Dear Ms. Marconi,

**RE: EB-2021-0243 Generic Hearing on UTR Issues – ETS Rate Issue
Energy Probe Submission on ETS Rate**

Attached is the submission of Energy Probe Research Foundation (Energy Probe) in the in the EB-2021-0242 Generic Hearing on the Uniform Transmission Rate Issues – Export Transmission Service Rate.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Patricia Adams (Energy Probe Research Foundation)
All parties in EB-2021-0243

Energy Probe Research Foundation 565 Bloor Street West, Toronto, Ontario, M5S 1Y6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

ONTARIO ENERGY BOARD

Generic Hearing on Uniform Transmission Rates Issues

Export Transmission Service Rate

Energy Probe Submission

September 6, 2022

Executive Summary

Energy Probe submits that the ETS rate should be increased to \$2.00/MWh. This rate is the current ETS rate of \$1.85/MWh escalated by the approximate increase in Hydro One Transmission rate base since EB-2014-0140, the proceeding where the \$1.85/MWh rate was first set. The \$2.00/MWh ETS rate represents a balance between increasing the \$6.54/MWh rate to the rate indicated by the cost allocation study and the \$0/MWh rate that will maximize exports. The expected changes from the Market Renewal Program should inform the forward direction of the ETS rate. Accordingly, a review after two years of market operation should be undertaken.

Background

The Ontario Energy Board issued a notice in October 2021 that it would hold a generic hearing EB-2021-0243 on the Uniform Transmission Rate (UTR) and the Export Transmission (ETS) rate. In Procedural Order No.1 issued November 30, 2021, the OEB indicated that first phase of the hearing will focus on reviewing and setting the ETS rate and that other UTR-related issues will be considered in a subsequent phase or phases of the hearing.

Forecast ETS revenues, currently about \$37million¹, offset Hydro One's Transmission revenue requirement of which reduces the Network Uniform Transmission Rate (UTR) paid by Ontario transmission customers.

The current ETS rate of \$1.85/MWh was arrived at by settlement in and approved by the OEB in its EB-2014-0140 decision. In EB-2019-0082 decision the OEB directed Hydro One to file an ETS cost allocation study in its next rebasing application. This Hydro One did when it filed the study by Elenchus in the EB-2021-0110 proceeding. Hydro One also filed comments from the IESO on the ETS rate. This evidence was incorporated into the generic proceeding, EB-2021-0243. The OEB subsequently granted the Association of Power Producers of Ontario (APPRO) leave to file an Expert Report by its consultant, Power Advisory, on Market Considerations related to the ETS Rate.

Following a Technical Conference in June 2022 and the OEB organized Discussion among parties in August, the OEB allowed participants to file written submissions by September 6. This is the submission from Energy Probe.

Options for establishing the ETS Rate

There are three options for establishing the ETS rate.

- Fully allocated cost based on Elenchus Cost allocation Model. Allocation to exporters of either 100% ,50% or 20%.

¹ Exhibit I, Tab 1, Schedule 4. Page 3

- Nominal rate with net congestion rates from the Transmission Rights Clearing Account (TRCA) flowing to Ontario Transmission ratepayers (similar to existing)
- Hybrid model with nominal ETS rate plus net revenues flowing to market participants or Hydro One to offset Ontario transmission rates

Transmission Rights Clearing Account

The Interaction between exports and the ETS rate relates to the use of the transmission system and inter-ties by traders that export power to neighbouring markets.²

The rights to the inter-ties are auctioned by the IESO hourly. Financial investors (Transmission Rights Holders) purchase the rights (capacity) in advance and seek to recover their investment by selling rights to Traders.

Traders must bid for capacity on the inter-ties on an hourly basis. The winning bidders also pay Transmission Rights Holders for the capacity they need to conduct their transactions.

Exporters may be generators selling surplus power, or power brokers that sell to outside parties and loads. Exporters pay for the use of the transmission system and pay Congestion Rents from the hourly capacity auction. The IESO records these rents in the TRCA.

After paying TRH investors the net amount is accumulated in the TRCA and the balance is disbursed quarterly to all market participants including local electricity distribution companies (LDCs) that collect this revenue and pass it into rates periodically.

The dynamic nature of the export market is a key factor when considering an appropriate ETS Rate.

Considerations for adopting one of the options for the ETS Rate

Hydro One in an interrogatory response³ explained the principles that should be considered in setting the ETS rate.

In Hydro One's view, the principles of full cost recovery, fairness and efficiency are among the principles that the OEB should consider in determining the ETS rate for Ontario, but they may not be the only principles that should be considered. In considering these principles, it is Hydro One's view that the OEB should also consider that the context of setting the ETS rate differs from the context of setting distribution or transmission rates directly for a utility.

In the ETS rate context the utility, Hydro One, is in a neutral position. It will recover its revenue requirement through a combination of transmission rates and ETS revenues, only the relative amounts will be impacted. As such, in the ETS rate-setting context, it is Hydro One's view that

² IESO Presentation, August 4, 2022

³ Exhibit 1, Tab 1, Schedule 5, page 2

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. The primary focus should therefore be on weighing the relative benefits of (a) higher or lower ETS revenues as an offset to Hydro One's transmission revenue requirement, against (b) the system costs and benefits resulting from the higher or lower export volumes that may be expected based on increases or decreases in the current ETS rate.

Energy Probe Submission

Energy Probe agrees with the considerations and principles as stated by Hydro One and believes that the user pay principle should also be followed in the selection of the ETS rate which even Power Advisory accepts⁴. Based on that principle the basis for determining the ETS rate should be a Fully Allocated Cost based on the use of the transmission system by all users based on their use in MWh. Energy Probe accepts the results of the Elenchus updated Cost Allocation Study. This produces a fully allocated Cost including all transmitters of \$6.54/MWh.⁵ This is similar to the basis of rates in some other jurisdictions.⁶

Energy Probe submits that the following objectives should be followed in the design of the ETS rate.

- Ratepayers should be fairly compensated for the use of the transmission system and inter-ties.
- The ETS rate should not be a deterrent to export trading
- The net revenue from congestion rents should flow either to Market participants as at present, or to Hydro One as an offset transmission cost.
- The expected changes from the Market Renewal Program, including the Day Ahead Market (DAM) should inform the forward direction of the ETS rate.

Discounting the ETS rate- “A Balancing Act”

The structure of the Ontario market is unique, and the Ontario export market includes unique features such as Transmission Rights and the Hourly Capacity Auction.

Based on the benefits that exports provide to the Ontario economy several parties will argue for a discounted ETS rate as low as zero or to maintain the current \$1.85/MWh. Others will argue for a higher rate, there is no mathematical basis for any discounts. The only basis is allowing the export market to function to the benefit of traders, transmission rights holders and domestic transmission users. The IESO may want to maintain the status quo, while APPRO may want a low discounted rate as low as \$0.0/MWh.

⁴ Exhibit PA-EP-3

⁵ Elenchus ETS Cost Allocation Report, July 21, 2021, Table 15, page 31

⁶ Jurisdictional Review of Export Transmission Service (ETS) Rates Study Final Report, CRA, March 29, 2021

Energy Probe Submission

Energy Probe notes that the Hydro One Transmission Rate Base has increased since the ETS rate of \$1.85 was settled in the EB-2014-0140 proceeding. Accordingly, the rate should, as a minimum reflect this increase. This would result a ETS Rate of about \$2.00. Energy Probe supports this as a reasonable “floor” rate. The forecast revenue offset to Hydro One Transmission would be about \$40 million in 2023.

The net proceeds from the auction of Transmission Rights and the hourly capacity auction should continue to be disbursed to Market Participants, including LDCs and Ontario ratepayers.

The expected changes from the Market Renewal Program, including the Day Ahead Market should inform the forward direction of the ETS rate. Accordingly, a review after two years of market operation should be undertaken.

Respectfully submitted on behalf of Energy Probe by its consultants,

Roger Higgin
SPA Inc.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.