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September 6, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi,

RE: EB-2021-0243 – Export Transmission Service Rate – Submissions of the London Property Management Association

Please find attached the submissions of the London Property Management Association in the above noted proceeding.

Yours very truly,

Randy Aiken
Aiken & Associates

c.c. All Parties to EB-2021-0243

ONTARIO ENERGY BOARD

**GENERIC UTR ISSUES HEARING – EXPORT
TRANSMISSIONS SERVICE RATE**

**SUBMISSIONS OF THE
LONDON PROPERTY MANAGEMENT ASSOCIATION**

INTRODUCTION

On October 15, 2021, the Ontario Energy Board (“OEB”) issued a Notice of 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 OEB indicated that the first phase of the hearing would focus on reviewing and setting the Export Transmission Service (“ETS”) rate.

These are the submissions of the London Property Management Association (“LPMA”) related to the setting of the ETS rate.

GENERAL COMMENTS

What is the Purpose of the ETS Rate?

LPMA agrees with HONI’s response in Exhibit I, Tab 1, Schedule 1, part (a) that “*the purpose of the ETS rate is to recover the cost of export customers’ use of the transmission system from which they benefit.*” In effect, the ETS rate limits any cross subsidization between domestic customers and export customers.

No Free Riders Principle

LPMA supports the “No Free Riders” principle which essentially states that there should not be users of a shared network that do not pay their fair share of costs for using the shared network. The OEB has in the past supported this principle. For example, in its report on Wireline Pole Attachment Charges (EB-2015-0304 dated March 22, 2018), the OEB indicated that when developing a cost-based methodology, consideration can also be given to the value that users obtain from the using of an established network.

ICP Revenues Should Not be Relied On

LPMA submits that the OEB should not rely solely upon intertie congestion pricing to provide benefits to Ontario ratepayers. ETS revenues are more stable than ICP revenues.

While both are directly impacted by export volumes, ICP revenues are also determined by market forces both inside and outside of Ontario. ICP revenues are also impacted by congestion or the lack thereof. The following table illustrates the growth in non-congested volumes on the interties with Michigan, Minnesota and New York:

Exports & Congestion - Michigan, Minnesota, New York

TWh's	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Total Exports (1)	16.5	15.8	16.4	17.7	14.6	81.0
ICP > \$0 MWh (2)	<u>11.3</u>	<u>9.2</u>	<u>9.5</u>	<u>9.8</u>	<u>7.1</u>	<u>46.9</u>
ICP = \$0	5.2	6.6	6.9	7.9	7.5	34.1
% of Exports with No Congestion	31.5%	41.8%	42.1%	44.6%	51.4%	42.1%

(1) Table 1 - HONI_I-01-01-01_20220513

(2) Table 16 - JT1.7

This table illustrates that non-congested exports to these three jurisdictions for which data was provided are increasing in share from 2017 through 2021. These non-congested volumes did not generate any ICP revenues. They did however, generate more than \$63 million dollars in ETS revenues, based on an ETS rate of \$1.85/MWh. This illustrates the greater stability in ETS revenues than in ICP revenues.

SUBMISSIONS ON ISSUES LIST

1. Is it appropriate to continue to rely on an Export Transmission Service (ETS) rate and on Intertie Congestion Pricing (ICP) to charge for export service?

LPMA has seen no evidence to suggest that the continuation of both the ETS and the ICP should be changed. These two charges for export service capture different revenues. The ETS is a regulated rate that reduces the transmission cost for domestic users. The ICP is a market driven revenue that reflects the willingness of exporters to pay when interties are congested.

The evidence provided by Power Advisory shows that the impact of raising the ETS to \$6.54/MWh or reducing it to \$0/MWh is small in comparison to the total impact of exports. As shown on slides 15 and 16 of the Power Advisory presentation (Exhibit KP1.5), over the 2018 through 2021 period the total congestion rent and ETS revenue based on the current rate of \$1.85/MWh totaled approximately \$707.5 million, or about \$176.9 million per year. Based on a number of assumptions, Power Advisory projected a reduction of \$42.6 million to ratepayers over the four-year period or an average annual reduction of about \$10.6 million.

Similarly, based on a number of assumptions, Power Advisory projected a net increase to ratepayers of \$33.7 million over the four-year period, or an average annual increase of \$8.4 million if the ETS rate were set to zero.

LPMA submits that when viewed in the context of the total ratepayer cost of the electricity system including generation, transmission and distribution, these changes that range from a net decrease to customers of \$8.4 million to a net increase to customers of \$10.6 million, get lost in the rounding.

The Power Advisory report is backward looking, and did not reflect any assumptions about changes in the future. These changes include potential changes in how the market operates in Ontario as well as changes in the supply mix or in demand as the province looks to electrification to meet environmental goals. Equally important, it does not reflect similar changes that may already be taking place in the adjoining markets that are connected to Ontario. All of these factors, and probably many more, may impact exports differently in the future than in the past.

One important factor that is missing from the analysis is the potential for additional intertie capacity between Ontario and other jurisdictions. Any increase in this capacity could have the result of increasing exports while at the same time lowering ICP revenues.

In summary, LPMA submits that it remains appropriate to rely on both the ETS and ICP revenue streams associated with export service. Relying on one or the other is riskier, in the view of LPMA, than having both in place.

2. If an ETS rate were to continue to exist alongside ICP, what approach should be used to set the ETS rate?

LPMA submits that a cost-based methodology, as provided by Elenchus in this proceeding, should be the basis upon which to set the ETS rate. This cost-based methodology is consistent with the methodology used by HONI to determine the allocation of transmission related to costs to domestic customers through the transmission line connection, transformation connection and network charges. LPMA submits that there is no justifiable reason for domestic volumes and export volumes to be treated differently with respect to the use of the same transmission assets.

2.1 If a cost-based approach is used to set the ETS rate, what methodology should be used?

LPMA supports the cost-based methodology used by Elenchus in their study found in Attachment 1 to the joint HONI and IESO ETS Rate Submissions. The Elenchus study allocates costs with respect to interconnection assets, external revenues from shared network assets, deferral and variance account balances and shared networks assets. The breakdown of these costs and their contribution to the ETS rates under the three proposed methodologies used by Elenchus are shown in the response to a Board Staff interrogatory in Exhibit I, Tab 1, Schedule 17.

LPMA is providing submissions on each of the cost categories and on the three methodologies considered by Elenchus for the shared network related costs.

Assets Dedicated to Interconnect: Importers do not pay for the use the transmission system and imports are used to serve the domestic load. However, importers also use the interconnection assets, so not all of the asset-related costs and OM&A associated with interconnection assets should be allocated to the export class. Since imports are used to serve domestic loads, Elenchus proposes that a portion of the interconnection assets costs (both capital related costs and OM&A) be allocated to the domestic class. Elenchus proposes to allocate the costs associated with the dedicated interconnection assets between the export and domestic classes based on the 12CP allocator.

LPMA supports this approach, and in particular, the use of the 12CP allocator. The 12CP allocator provides a good measure of the use of the interconnection assets over the course of a year.

External Revenues from Shared Network Assets: LPMA agrees with Elenchus that if export customers are allocated a portion of the Shared Network Asset related costs, they should also be allocated a portion of the external revenues received by HONI related to the use of those assets. The same allocator as used for Shared Net Fixed assets should be used here.

Deferral and Variance Account Balances: Elenchus proposes that HONI's deferral and variance account balances – excluding the Excess Export Revenues – should be based on the relative shares of the domestic and export classes of the revenue requirement. LPMA supports this proposal because the rates revenue requirement includes deferral and variance account balances and the balances in these accounts are not attributable to either domestic or export customers or to specific assets used by either group of customers.

Shared Network Assets: Elenchus uses three methodologies to allocate shared network asset costs between the domestic and export customer classes. These three methodologies include fully allocated costs, fully allocated costs adjusted for curtailment (curtailment model), and fully allocated costs discounted by 50% (hybrid model).

LPMA supports the use of the fully allocated costing model as a starting point. LPMA also supports an adjustment to the fully allocated costing model to reflect the curtailment of export volumes.

LPMA submits that the OEB should use the fully allocated costing model as a starting point to determine the appropriate ETS rate. This ensures equitable treatment of domestic and export volumes and customers. It also upholds the “No Free Riders” principle discussed above.

Elenchus has proposed to allocate the shared network asset related costs (both capital and OM&A related) using the shared net fixed assets allocator, 12CP. The capital and OM&A expenses associated with assets that are dedicated to domestic and dedicated to

interconnects are excluded. This breakdown is shown on page 4 of Exhibit I, Tab 1, Schedule 17. LPMA supports the use of the 12CP allocator as it is a good proxy for the use of the transmission system by different rate classes.

LPMA further agrees with the Elenchus statement that to the extent that export customers are curtailed, the export hourly data that is used as an allocator reflects the impact of service curtailments (ETS Rate Submissions, Attachment 1, pages 32-32). In other words, using the 12CP allocator for shared network asset related costs between domestic and export customers reflects the actual use of the transmission system for both groups of customers, including the impact of curtailments to export customers.

There is, however, a difference in the service provided to export customers as compared to domestic customers. That difference is that export volumes are curtailable. This does not mean, however, that customers that are curtailable should not pay for using the transmission system. It does mean that they should pay less than would be the case if they were not curtailable, like domestic customers. The question then becomes, how much less should they pay and how should this reduction in the rate be determined.

LPMA supports the Elenchus approach which applies a discount to the 12CP allocator used for shared network asset related costs. This discount is based on the actual service curtailment that affected exports in the last few years. Based on data for 2019 and 2020, Elenchus estimated that exports were curtailed 20% of the time (ETS Rate Submissions, Attachment 1, Table 6).

In Exhibit I, Tab 1, Schedule 11, the IESO updated the 2020 figure in Table 6 to 17% for the entire year and indicated that for 2021, the figure was 24%. LPMA submits that the Board should adopt the Elenchus methodology but should determine whether it should be based on the latest year of historical data (i.e. 24% for 2021), the latest two year average (i.e. 20.5% for 2020 and 2021) or the latest three year average (i.e. 21% for 2019, 2020 and 2021). LPMA submits that the three year average is better suited for determining the discount to be applied than the two year average or the last year, as it reduces the volatility that can arise from using shorter periods and provides for a more stable ETS rate.

Using the reduction of 20%, the resulting ETS rate would be \$5.03/MWh, as shown in Table 14 of Attachment 1 to the ETS Rates Submission.

LPMA submits that this is an appropriate and justified rate to be charged for ETS service. It is based on the principle of no free riders, uses the same methodology to allocate costs to export customers as it does to domestic customers while recognizing that export customers are curtailable but are receiving firm service 80% of the time.

2.2 Should a settlement-based approach be permitted?

If rates are set based on a cost allocation methodology, then LPMA believes that a settlement-based approach should not be permitted. Cost allocation is zero sum exercise

that is tasked with allocating costs between different types of customers on a fair and equitable basis. If a settlement-based approach was used to set the ETS rate, other rates would, by default, be impacted. Not all customers or customer groups may be represented in a proceeding or in a settlement process. They may not realize that through the complexities of the regulatory process that the rate they pay may be impacted by the rate paid by a totally different type of customer.

If the OEB were to adopt some other methodology to set the ETS rate, then LPMA submits that a settlement-based approach could be permitted, but again cautions that everyone impacted should be at the settlement table.

2.3 What other methods for setting the ETS rate should be considered?

Going forward, LPMA submits that the Board should direct HONI to investigate the use of the network charge as a component of the ETS rate. In particular, instead of allocating shared network cost costs and shared network OM&A expenses to domestic and export pools, these costs would be allocated to the network pool. One network charge would then be determined based on the aggregate of the domestic and export demands. This network charge would then be one component of the ETS rate. The second component of the ETS charge would continue to be based on dedicated interconnect capital costs and dedicated interconnect OM&A expenses, which would be allocated to domestic customers (based on import use) and to export customers.

2.4 How often should the ETS rate be set?

LPMA submits that the frequency of the ETS rate being set needs to be based on a number of factors.

First, it should be set at least as frequently as HONI updates its transmission related costs and rates in a rebasing application. For example, if HONI files a rebasing application every five years, then the ETS rate should be included as part of that rebasing.

Second, the OEB will need to determine if there is a substantial impact on exports and the ETS rate from changes in the electricity market in Ontario and in the surrounding jurisdictions. For example, the implementation of a market renewal program and/or locational margin pricing may require a review of the impact on transmission rates, including the ETS. This potential for a review is discussed further under Issue 3 below.

Third, as described below under Issue 3 below, LPMA submits that the ETS rate should be updated annually, the same as other rates as proposed by HONI under its custom rate application. This is especially important if a cost-based methodology is used to set the rate in the base year. If the ETS rate is not updated on a consistent basis with domestic rates, cross-subsidization will grow over the remaining term of the custom IR.

3. Are there other key issues the OEB should consider related to the ETS rate?

LPMA has a number of submissions related to other key issues that it believes the OEB should consider in relation to the ETS rate.

The Term, Transition & Triggers

LPMA submits that the OEB should set the term of the ETS rate methodology determined in this proceeding to equal the term of the customer IR approved for the HONI transmission proceeding assuming no substantial change in the electricity market in Ontario over that period. This would ensure the continued equality in treatment of export and domestic volumes.

However, should substantial changes in the Ontario market due to a market renewal program, locational market pricing or other such events take place within the term of the HONI custom IR term, then the OEB should consider the methodology for setting the ETS rate that comes out of this proceeding to be transitional. The OEB should consider initiating a review of the methodology used to determine the ETS rate and determine if a change is required. This review could be part of, or separate from, a review of how transmission rates are set for the province.

ETS Revenues to HONI or All Transmitters

Elenchus has proposed that the ETS rate, which was calculated based on the revenue requirement of HONI only, should be increased in order to reflect the total cost of all transmission facilities in Ontario (ETS Rate Submission, Attachment 1, page 35). As shown in Tables 14 and 15 on that page, that would increase by the fully allocated ETS rate by about 7.9% from \$6.06/MWh to \$6.56/MWh. Similarly, it would the ETS rate that is based on a curtailment service from \$5.03/MWh to \$5.42/MWh.

LPMA does not support this adjustment to reflect the total cost of all transmission facilities in Ontario. In particular, LPMA agrees with the HONI response provided in part (a) of Exhibit I, Tab 1, Schedule 4. In that response, HONI states its view that the ETS revenue should continue to apply only to HONI as it is the only Ontario transmitter that owns and operates the intertie facilities that are accounted for in the ETS rate. HONI goes on to state that from a customer perspective, the outcome would be the same since any ETS revenues that would flow to other transmitters would have to be deducted from their approved revenue requirement for the purpose of setting the UTR rates. In other words, the total revenue requirement of the other transmitters would not change and as a result, there would be no change in the UTRs.

This change, in the view of LPMA, would only add to the complexity of the distribution of the ETS revenue. Currently, the IESO remits all of the ETS revenue to HONI. If the IESO had to remit the ETS revenue to all of the transmitters, this only adds to the complexity not only for the IESO but also for each of the transmitters. The net impact on each of the other transmitters is that their revenues, instead of being impacted only by domestic demand would now also be, in part, impacted by export demand.

While LPMA agrees that the outcome for domestic customers would be the same of the direct impact of allocating ETS revenues to all transmitters, it believes that domestic customers could be ultimately harmed by this approach.

LPMA notes while domestic customers would not see any change in their UTR rates, the same cannot be said for exporters, who would now have a higher ETS rate to pay. This would likely reduce export volumes and ICP revenues that ultimately flow back to domestic customers. As the IESO stated in part (b) of Exhibit I, Tab 1, Schedule 38, *“Exports are highly price sensitive, and an increase in transaction costs would have an impact on export volumes.”* This would impact both ETS and ICP revenues.

Phase In of ETS Rate Increases

LPMA has had the opportunity to review the submissions of Board Staff with respect to phasing in increases in the ETS rate over a number of years. While LPMA agrees with the concept and the need for a phase in, it does not agree with the specific proposals of Board Staff.

While Board Staff recommend the use of the same curtailment model from Elenchus as does LPMA, Board Staff have proposed a rate of \$5.42/MWh payable to all transmitters, while LPMA proposes a rate of \$5.03/MWh payable only to HONI. Thus, with a lower end point, LPMA believes that the ETS rate should reach this level within six years as compared to more than a decade in the Board Staff proposal.

In particular, LPMA suggests that the ETS rate should be increased to \$2.50/MWh for 2023 and then increased by \$0.50/MWh in subsequent year. This would result in a \$5.00/MWh charge in 2028, which would likely be a rebasing year for HONI at which time a new ETS rate could be determined through the cost allocation methodology.