

ONTARIO ENERGY BOARD

**Generic Hearing on Uniform Transmission Rates-
Related Issues and the Export Transmission Service
Rate**

**SUBMISSIONS OF
CANADIAN MANUFACTURERS & EXPORTERS (“CME”)**

September 6, 2022

Scott Pollock
Borden Ladner Gervais LLP
Barristers & Solicitors
100 Queen Street
Suite 1300
Ottawa, ON K1P 1J9

Counsel for CME

Table of Contents

- 1.0 INTRODUCTION AND BACKGROUND 2
 - 1.1 UTRs and ETS Rates 3
- 2.0 IT IS APPROPRIATE TO RELY ON BOTH AN ETS AND ICP TO CHARGE FOR EXPORT SERVICES..... 6
 - 2.1 The ETS and the ICP are charged to recover the Cost of Different Aspects of the Transmission System..... 6
 - 2.2 The ETS and ICP provide Different Benefits to the Transmission System and Domestic Ratepayers..... 7
- 3.0 SETTING THE ETS RATE IS A POLICY DECISION THAT MUST TAKE A NUMBER OF FACTORS INTO ACCOUNT 9
 - 3.1 The Amount of Congestion Rents that could be recovered in the Future is Unknown and Highly Variable 11
 - 3.2 The ETS Rate Should be Set Every Five Years 13
- 4.0 COSTS..... 14

1.0 INTRODUCTION AND BACKGROUND

1. These submissions are made on behalf of Canadian Manufacturers & Exporters (“**CME**”).
2. CME’s members, which include over 400 Ontario based companies, operate energy intensive businesses. Their continued competitiveness in their respective industries is tied directly to how much energy costs them. The potential changes to the Export Transmission Service Rate (“**ETS**”) and its resulting impacts on uniform transmission rates (“**UTRs**”) therefore have a direct impact on CME’s members.
3. As part of its joint rate application, Hydro One included evidence regarding the ETS rate.¹
4. In Procedural Order #1 in the EB-2021-0110 rate application case, the Ontario Energy Board (the “**OEB**” or the “**Board**”) determined that it would be appropriate to deal with issues relating to UTRs as part of a separate, generic proceeding.² The OEB also determined that it would be appropriate to deal with ETS rates as part of that same generic proceeding.³
5. In its evidence, which now forms part of the evidence in this proceeding, Hydro One declined to support a specific amount for the ETS rate, on the basis that it was not clear what rate would ultimately lead to the best outcome for customers.⁴ Hydro One provided the following evidence:
 - (a) A cost allocation study, completed by Elenchus (the “**2021 Elenchus Report**”). The 2021 Elenchus Report reviewed three different ETS rate scenarios, including an allocation of 100% of shared net assets (\$6.54/MWh), and an allocation of 80% of shared net assets (\$5.42/MWh), and an allocation of 50% of shared net assets (\$3.66/MWh). Elenchus deferred to the Board on what ETS rate to set as a policy decision;⁵

¹ See Hydro One’s original application in EB-2021-0110.

² EB-2021-0110, Procedural Order #1, September 17, 2021, p. 3.

³ EB-2021-0110, Procedural Order #1, September 17, 2021, p. 3.

⁴ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, p. 12 of 14.

⁵ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, Attachment A, p. 36 of 44.

-
- (b) An updated review of how transmission rates are dealt with in other jurisdictions, completed by Charles River Associates (the “**Jurisdictional Study**”);⁶ and
- (c) Commentary on the impact of changing the ETS rates on the electricity market, completed by the Independent Electricity System Operator (the “**IESO**”).⁷ The IESO outlined in its evidence that exports/imports provide value to domestic customers even outside the ETS revenues. These benefits included payment of the intertie congestion price (the “**ICP**”) and enabling the IESO to improve reliability and grid operation during changing conditions.⁸
6. In addition to the evidence from Hydro One and the IESO, the Association of Power Producers of Ontario (“**APPo**”) commissioned evidence from Power Advisory. The Power Advisory report examined the financial impact to Ontario Ratepayers of raising or lowering the ETS rate from its current fixed rate of \$1.85/MWh.⁹

1.1 UTRs and ETS Rates

7. Although the Board has significant background evidence on UTRs, ETS Rates, and the electricity market, it is necessary to set out some of the background here as context for CME’s submissions found in the sections that follow.
8. UTRs and ETS revenues represent charges levied on different types of customers that ultimately flow to Hydro One’s transmission business to pay for use of its electricity transmission system. UTRs are levied on domestic customers.¹⁰
9. Pursuant to Chapter 10, section 4 of the Market Rules, the IESO collects charges for export transmission service that uses the IESO-controlled grid for the transmission of energy outside of the IESO’s controlled area.¹¹ This charge is the ETS rate.

⁶ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, Attachment B.

⁷ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, Attachment C.

⁸ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, p. 12 of 14.

⁹ EB-2021-0243, Expert Report for the Market Impacts of Changes to the ETS Rate, Power Advisory, May, 2022.

¹⁰ EB-2021-0243, Presentation Day Transcript, p. 14.

¹¹ Market Rules for the Ontario Electricity Market, IESO, Chapter 10-7, s. 4.1.2, Issue 6.0, December 1, 2021.

-
10. The revenues from both UTRs and the ETS rate, which is charged by the IESO but remitted to Hydro One, are both used to meet Hydro One's transmission revenue requirement.¹² The amount of revenues that Hydro One forecasts to receive from the ETS rate is used to offset the amount it charges to domestic customers through UTRs. The current ETS revenue forecast is approximately \$35 million per year.¹³
 11. A corollary of that relationship is that a reduction or increase in the amount of ETS revenue recovered from exporters will have an inverse impact on the amount of revenues that are required to be collected from domestic ratepayers. Therefore, if a greater amount of ETS revenue is collected, the amount that Hydro One will collect from domestic customers will decrease.
 12. In addition to revenues collected from ETS rates, exporters may also be required to pay the ICP. The ICP revenues are dynamic and are set by traders themselves based on the market value of the exporting opportunity.¹⁴ Essentially, it reflects the market rate for the use of the interties between Ontario and other jurisdictions, where demand outstrips the intertie's capacity. The ICP is not necessarily charged at all times, as export demand is not always greater than the intertie capacity.
 13. Unlike the ETS rate, ICPs are not forecast by Hydro One as an additional revenue to offset its revenue requirement. Instead, the ICP collected by the IESO are disbursed to load customers and exporters.¹⁵ Where those load customers are distributors, such as Hydro One Distribution, these credits reduce the wholesale market service costs they pass on to distribution customers.¹⁶ Market participant end-use load customers are also distributed ICP revenues as credits on their IESO settlement statements. Accordingly, those

¹² EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, p. 11 of 14.

¹³ EB-2021-0243, Presentation Day Transcript, p. 81.

¹⁴ EB-2021-0243 Hydro One ETS Submissions (IESO Portion), October 14, 2021, p. 12 of 14.

¹⁵ EB-2021-0243, JT1.03, p. 1 of 8.

¹⁶ EB-2021-0243, JT1.03, p. 2 of 8.

revenues bypass the transmitter (Hydro One Transmission) and are distributed through to load customers either directly or through their distributor.¹⁷

14. Initially, the ETS rate was set as \$1.00/MWh by the Board in RP-1999-0044.¹⁸ The Board increased the rate to \$2.00/MWh in EB-2010-0002 on the basis of the directional preference outlined in a Charles River Associates study.¹⁹ In EB-2014-0140, the parties reached a settled resolution, which included an ETS rate of \$1.85/MWh, which was halfway between the existing ETS rate, and the \$1.70 ETS rate determined by a 2014 cost allocation study completed by Elenchus.²⁰ The ETS rate has continued at \$1.85/MWh to the present day.
15. In CME's view, the Board should continue to rely on both an ETS and ICP for export transactions in Ontario. In setting the ETS rate, the Board should be guided not only by cost allocation principles, as outlined in the 2021 Elenchus Report, but also the other unique circumstances that factor into export transactions in Ontario. These unique factors include the level of service provided to exporters, as well as operational and monetary benefits of export transactions outside of ETS revenues.
16. While there is no one-size fits all solution to what the ETS should be, in CME's view, the Board should order a modest reduction of the ETS rate, for instance, to \$1.50, to test whether it could be a net benefit to ratepayers. Given the uncertainty of ICP revenues in the future, CME submits that the Board should review the ETS rate every 5 years, and should look to increase it if circumstances change, or if the operational and monetary benefits to ratepayers do not outweigh foregone ETS revenue.

¹⁷ EB-2021-0243, JT1.03, p. 2 of 8.

¹⁸ EB-2021-0243 Hydro One ETS Submissions (IESO Portion), October 14, 2021, p. 3 of 14.

¹⁹ EB-2021-0243 Hydro One ETS Submissions (IESO Portion), October 14, 2021, p. 4 of 14.

²⁰ EB-2021-0243 Hydro One ETS Submissions (IESO Portion), October 14, 2021, p. 6 of 14.

2.0 IT IS APPROPRIATE TO RELY ON BOTH AN ETS AND ICP TO CHARGE FOR EXPORT SERVICES

2.1 The ETS and the ICP are charged to recover the Cost of Different Aspects of the Transmission System

17. Some parties suggested that the ETS and ICP are essentially forcing exporters to pay twice for the same assets, and therefore, is unfair.²¹ CME disagrees. The evidence indicates that the two charges target largely different aspects of the transmission system. Stephen Vetsis outlined Hydro One's position regarding what the ETS charge is meant to recover:

"[F]rom Hydro One's view, really the purpose to the ETS is to recover the cost of export transmission's use of the transmission system from which they benefit. The ETS rate essentially limits cross-subsidization between Ontario transmission customers and exporters. And when we say transmission system, in this context we're referring specifically to the towers, poles, wires, et cetera that Hydro One builds and maintains and which comprise Hydro One's revenue requirement."²²

18. In contrast, the ICP is a market mechanism that essentially buys the right to use limited intertie capacity during moments where export transactions are profitable.
19. When asked about the difference between the two rates, Mr. Blair from Elenchus confirmed that his view was that the ETS and ICP were paying for separate things:

"I would say that the inter-tie congestion pricing is paid for capacity on inter-ties, whereas the ETS is for use of the shared transmission system for the province..."

...Yes, they [exporters] are paying twice, and it is done with the same infrastructure, but the capacity of the infrastructure at the inter-ties - it is sort of a separate thing they're paying for there, rather than just use of the system to get them there."²³

20. Moreover, even if the Board were to find that the cost allocation model used in the 2021 Elenchus Report already includes Exporter's cost of the intertie, it does not mean that payment of the ICP is unfair or double recovering.

²¹ EB-2021-0243, Technical Conference, Day 2, July 29, 2022, pp. 108-109.

²² EB-2021-0243, Presentation Day Transcript, p. 17.

²³ EB-2021-0243, Technical Conference, Day 2, July 29, 2022, pp. 109-110.

-
21. As outlined in the 2021 Elenchus Report, the fair cost to exporters of the shared network assets would likely be significantly higher than the current \$1.85/MWh, and could be up to \$6.54/MWh.²⁴
 22. CME submits that exporters' payment of the \$1.85/MWh fixed charge acts as a floor, and ensures that all export transactions, regardless of how constrained the intertie is, pays for a portion of their cost of the transmission system from which they are benefitting. The ICP may layer an additional dynamic cost on top of that, but the fact that part of recovering the cost of exporters' use of the system is fixed and part of it is variable and set by the market is not inherently unfair.
 23. Instead, it strikes an appropriate balance between making sure exporters are always paying some of the cost of the transmission system, while also providing the operational and monetary benefits outlined by the IESO, which are described further in these submissions.

2.2 The ETS and ICP provide Different Benefits to the Transmission System and Domestic Ratepayers

24. The Board should also keep both the ETS rate and the ICP because both provide different benefits to the grid, as well as domestic customers.
25. As previously outlined, the benefit of the ETS rate is that it sets a floor price that all export transactions must pay in order to recover some of the costs of the transmission system from which exporters benefit.
26. If the Board were to do away with the ETS rate, there would be some export transactions for which there is no intertie congestion and, therefore, no ICP that could be completed without any recovery of costs that would defray the costs levied on domestic load

²⁴ EB-2021-0243 Hydro One ETS Submissions, October 14, 2021, Attachment A, p. 35 of 44.

customers. Continued use of the ETS rate ensures that there are no “free riders”, and that cost causality principles are followed for exporters’ use of the transmission system.²⁵

27. In contrast, the ICP provides different benefits to the transmission system and domestic customers. In this regard:

(a) It allows the IESO to capture part of the profitability of the export transactions that are made possible by the baseload generation mix for which Ontario customers pay. As outlined by the experts in this proceeding, part of the reason that Ontario has lucrative export opportunities is because of its unique emphasis on baseload generation resources compared to other jurisdictions.²⁶ As a result, there are often points when power purchased in Ontario can be resold in other jurisdictions for a much higher price.

The ICP mechanism harnesses competition amongst exporters and allows the IESO to share some of the potential profitability of an export transaction. These revenues largely flow back to domestic loads through IESO settlements or local distributors. As outlined in the evidence, ICP revenues are usually significantly larger than ETS revenues, providing a significant monetary benefit to domestic load customers.²⁷ Given that much of the cost of Ontario’s supply mix is paid for by Ontario’s domestic customers, it is appropriate that they are able to capture part of the economic benefits of the supply mix as well.

(b) The ICP mechanism allows for a robust export market to develop in Ontario. As outlined by the IESO, this provides a number of operational benefits to the IESO, including the use of exports to address excess supply in Ontario, and prevents

²⁵ EB-2021-0243, Presentation Day Transcript, pp. 48-49.

²⁶ EB-2021-0243, Presentation Day Transcript, pp. 123-124.

²⁷ EB-2021-0243, Presentation Day Transcript, p. 90.

having to take costly and time-consuming control actions, such as spilling hydro electric generation assets or shutting down nuclear reactors.²⁸

28. Accordingly, CME submits that the Board should continue to use both the ETS rate and the ICP mechanism for export transactions.

3.0 SETTING THE ETS RATE IS A POLICY DECISION THAT MUST TAKE A NUMBER OF FACTORS INTO ACCOUNT

29. CME submits that the ETS rate should be informed, but not mechanistically determined, by cost allocation principles. As a starting point, CME submits that the Board should use Elenchus' 80% allocated shared network asset model. As further outlined below however, the Board should also consider a number of other factors to arrive at an ETS rate. In CME's submission, a review of those additional factors leads to the conclusion that the ETS rate should be below the \$5.42/MWh starting point that Elenchus determined.
30. CME agrees that costs for the use of a shared system should be shared by the end users of the system, such that there are no "free riders" or users who derive a benefit from the system without paying any of the cost.²⁹ While the system was not built to accommodate export load requirements, the fact remains that exporters benefit from the transmissions system and should share the costs. Consequently, CME opposes setting the ETS rate to zero.
31. However, exporters receive different service from domestic loads. Exports are treated by the IESO to be "curtailable".³⁰ According to Elenchus, exports were curtailed in 11 of the 25 peak hours for the previous 5 years, and only 10% of scheduled exports were curtailed when curtailment was ongoing.³¹ In Elenchus' view, that level of curtailment is more than

²⁸ EB-2021-0243, Presentation Day Transcript, p. 105.

²⁹ EB-2021-0243, Presentation Day Transcript, p. 48.

³⁰ EB-2021-0243, Presentation Day Transcript, pp. 37-38.

³¹ EB-2021-0243, Presentation Day Transcript, p. 38.

a traditional domestic load customer would face, but less than a traditional “interruptible” customer.

32. However, in addition to the above, the Board should take into account other factors that influence what a fair and reasonable ETS should be. In this regard:

- (a) Exports provide operational benefits to the IESO and the grid. According to Mr. Chapman, a senior manager for wholesale market development at the IESO, a strong export market provides significant benefits to domestic customers outside of the monetary benefit of the ETS and the ICP. For instance, exports can alleviate periods of surplus generation by exporting power outside of Ontario. In the absence of exports, the IESO stated that it would be required to take “control actions” in order to manage the grid.³² These control actions include curtailing generation with hydro electric and nuclear curtailment, potentially taking several days to complete, several days to reverse (and bring the unit back on), and straining the IESO’s resources.³³ The cost of shutting down a nuclear reactor was estimated at being \$4-\$6 million per shutdown.³⁴ Moreover, if demand were to increase after the control action, the IESO would be forced to manage the grid with a thinner supply stack than would otherwise be the case.³⁵ This factor militates in favour of an ETS rate that is lower than the fully allocated cost of \$6.54/MWh
- (b) Exporters also pay for export transactions through the ICP, which eventually is largely disbursed back to domestic loads.³⁶ This factor militates in favour of an ETS rate below \$6.54/MWh. However, as outlined below, the Board should carefully review ICP revenues to ensure that domestic load customers continue to receive

³² EB-2021-0243, Presentation Day Transcript, p. 86.

³³ EB-2021-0243, Presentation Day Transcript, pp. 86-87.

³⁴ EB-2021-0243, Undertaking JP 1.04.

³⁵ EB-2021-0243, Presentation Day Transcript, p. 87.

³⁶ EB-2021-0243, JT1.03, p. 1 of 8.

benefits of ICP payments that outweigh the ETS revenue that could be lost if a lower ETS rate is set.

3.1 The Amount of Congestion Rents that could be recovered in the Future is Unknown and Highly Variable

33. The IESO and Power Advisory have indicated in their evidence that the ICP makes up a much more significant portion of the overall monetary value provided by exports than the ETS does.³⁷ Moreover, as the ETS rate decreases, it will, as a consequence, make more export transactions profitable, thereby increasing the demand for intertie capacity, and increasing ICP congestion rents. Power Advisory analyzed what the net effect could be of reducing the ETS rate to zero. According to its historical analysis, reducing the ETS rate to zero results in an increase in export volumes of more than 10 TWh, and a net benefit to ratepayers of \$29 million.³⁸

34. However, Power Advisory's analysis uses historical data, and it has acknowledged that the future is uncertain in this regard:

“Ontario is facing a future that is very uncertain. The IESO is procuring thousands of megawatts. It hasn't done that for a long time. We don't know what those megawatts are, we don't know what the marginal cost is, we don't know how they're going to be committed. So the future, even with or without WECC, is probably more of a question mark we have seen for quite a while in the province. So I think the future is more uncertain than it was let's say three or four years ago.”³⁹

35. In essence, despite the fact that lowering the ETS rate over the previous ten years could have been economically advantageous to ratepayers, it does not necessarily mean it will be advantageous going forward. If the Board were to switch to a zero ETS rate, and domestic production of electricity were to lessen, revenues from exporters could be significantly reduced, leading to higher prices for domestic loads.

³⁷ EB-2021-0243, Presentation Day Transcript, p. 90; Power Advisory, Expert Report for the Market Impacts of Changes to the ETS Rate, May 2022, p. 34 fig. 12, as compared to Hydro One's forecast of \$35 million in ETS revenues.

³⁸ Power Advisory, Expert Report for the Market Impacts of Changes to the ETS Rate, May 2022, p. 44.

³⁹ EB-2021-0243, Technical Conference, Day 2, July 29, 2022, pp. 95-96.

-
36. However, Mr. Chapman, on behalf of the IESO, gave evidence that his view was that in the near term at least, Ontario's supply situation relative to its neighbours would not materially change:

“So going to my earlier point, until you see, you know, structural changes in the supply mix, it is hard to see Ontario switching from being -- the export volumes to reduce. They will reduce as we, you know, retire Pickering. That takes away a lot of baseload capability, but by the end of the decade, we will have 12,000 megawatts of nuclear capability on line, which is actually more than today. So there are some puts and takes even on Ontario's supply mix. But when you look holistically, in my opinion I guess -- and other people will have their own opinions, but it is hard to see how the congestion rents would materially drop in the near term.”⁴⁰

37. Accordingly, CME believes that while there are a number of unknowns regarding whether lowering the ETS rate will have a net positive impact for domestic customers, it is worth exploring. There is merit to lowering the ETS rate in order to confirm Power Advisory's analysis and potentially increasing benefits to domestic ratepayers.
38. However, given the uncertainty, CME submits that any lowering of the ETS rate should be modest and, subject to the Board's regular review to ensure not only that it is achieving the economic and operational benefits envisioned by Power Advisory and the IESO, but that it will continue to do so for the upcoming review period as well. For instance, a reduction in the ETS rate to \$1.50 would allow the Board to determine if domestic customers reap a net benefit, while still ensuring that exporters pay a portion of the cost of the transmission assets from which they benefit.
39. In CME's view, the ETS rate should increase as the cost of the transmission network increases as well. In this regard, CME submits that the ETS rate can be inflated by the same RCI that inflates Hydro One Transmission revenue requirement.⁴¹

⁴⁰ EB-2021-0243, Presentation Day Transcript, p. 112.

⁴¹ EB-2021-0243, Undertaking JT1.2.

3.2 The ETS Rate Should be Set Every Five Years

40. As outlined above, CME supports a modest reduction to the ETS rate in order for the Board and stakeholders to test whether the amounts recovered through the ICP will outweigh those that would have been collected under a higher ETS rate, but were not.
41. However, CME submits that, in light of the uncertainty regarding the future of Ontario's electricity supply, including the reduction in nuclear power generation from the removal of Pickering from the supply mix, the Board should regularly review the ETS rate.
42. A regular review would allow the Board to recalibrate the ETS to account for changes in:
- (a) Ontario's energy generation outlook;
 - (b) neighbouring jurisdictions' production capabilities; and
 - (c) Intertie capacity between Ontario and its neighbours.⁴²
43. It would also allow the Board to ensure that the ETS rate continues to strike the appropriate balance between exporters paying their fair share of network assets (through the ETS rate) and the economic and operational benefits provided by a strong export market.
44. CME submits that the Board should conduct a full review of the ETS rate every 5 years, or whenever circumstances materially change. In CME's view, it may be more efficient for the review to be tied to Hydro One's rate applications, but it does not need be joined. In CME's view, a 5 year period would properly balance providing long periods of certainty in the ETS rates with the ability to recalibrate, should circumstances change.

⁴² CME notes that a 1,000 MW intertie underwater between the U.S and Canada has been proposed which could change the conclusions of the experts in this proceeding. This project would warrant a further review of the ETS rate in CME's submission.

4.0 COSTS

45. CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 6th day of September, 2022.



Scott Pollock
Counsel for CME_{131650731:v1}