



September 6, 2022

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

Re: EB-2021-0243
Generic Hearing on Uniform Transmission Rates-Related Issues and the Export Transmission Service
AMPCO's Final Submissions

Dear Ms. Marconi:

Attached please find AMPCO's final submissions in the above proceeding.

Best Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson
President

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

AMPCO's Final Submissions

September 6, 2022

The Ontario Energy Board (OEB) generic hearing is on its own motion under sections 19, 21 and 78 of the *Ontario Energy Board Act, 1998* to consider various issues related to Ontario's Uniform Transmission Rates (UTR). The first phase focuses 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. These issues have been identified in the years since Ontario's UTR framework was established in Hydro One's first rate application proceeding in 2000, and implemented in 2002 following the opening of Ontario's electricity market.

ETS is defined in the Market Rules as meaning the transmission service relating to the use of the IESO-controlled grid for the transmission of energy out of the IESO-control area and into a neighbouring transmission system and in respect of which charges are required to be collected by the IESO pursuant to section 4 of Chapter 10.¹ Hydro One is the only Ontario transmitter that owns and operates the intertie facilities that are accounted for in the historically approved ETS rates.²

In its Decision on the Issues List, the OEB determined that at its most fundamental, this proceeding will determine whether there will continue to be an ETS rate, given the presence of the Intertie Congestion Price (ICP) charges in the market, and if so, how and when that ETS rate would be set.³

Background

The OEB approved the establishment of the ETS at a rate of \$1.00/MWh in its decision dated May 26, 2000 in RP-1999-044.⁴ The ETS rate of \$1.00/MWh remained unchanged until it was reviewed in Hydro One's 2011 and 2012 Transmission Rate Application⁵ where the OEB increased the ETS rate to \$2.00/MWh for 2011 and 2012.

In making this change, the OEB stated:

"The Board's analysis of this issue begins with the observation that the original one dollar ETS rate was initially as a placeholder, and was not the product of an objective, principled, or

¹ ETS Rate Submissions p. 2

² ETS Rate Submissions p. 11

³ OEB Decision on Issues List, January 22, 2022 p. 2

⁴ JT-1.11

⁵ EB-2010-0002

programmatic study. It therefore cannot be considered to have any particular precedential value. The issue is a long-standing one, and until very recently it has not been subjected to any form of genuine analytical review. Having said that, there is little virtue in replacing one placeholder with another in the absence of evidence supporting the new value.⁶

“In making this change the Board seeks to recognize the directional preference of the CRA study, and the absence of any particular analytical underpinning for the current rate. Subsequent panels assessing the level of this rate should not, however regard this new rate as having any particular precedential value. It is the Board’s view that the new rate has more analytical support than the status quo, but that in order to arrive at a genuinely robust and valid rate, more study is required.⁷ The Board also concluded that the most pressing requirement is that a genuinely comprehensive study be undertaken to identify a range of proposed rates and the pros and cons associated with each proposed rate in time for the next transmission rate application.⁸ The Board directed the IESO to undertake this comprehensive study.

In its 2013 and 2014 UTR application, the IESO engaged Charles River Associates (CRA) to perform the above comprehensive study (2012 CRA Study). CRA studied five ETS rate options

1. the status quo of \$2.00/MWh;
2. unilateral elimination (i.e., a \$0.00/MWh);
3. an increase to the current Equivalent Average Network Charge ("EANC") of \$5.80/MWh;
4. a tiered rate of \$5.80/MWh during on-peak hours and \$0.00/MWh during off-peak hours;
- and
5. a tiered rate of \$3.50/MWh on-peak and \$1.00/MWh off-peak.

The OEB determined that the ETS rate should remain unchanged at \$2.00/MWh for 2013 and 2014.⁹

The OEB found that absent an analysis of cost causality (through a cost allocation study), there is insufficient basis for the Board to conclude that any change to the ETS rate is just and reasonable. The OEB directed Hydro One to prepare a cost allocation study involving the network assets utilized by export transmission customers propose a cost based ETS rate with supporting rationale, at its next transmission rates application.

In its 2015 and 2016 UTR application, Hydro One (Elenchus Research Associates) prepared the cost allocation study (2014).¹⁰ Elenchus recommended an ETS rate of \$1.70/MWh. For the purpose of reaching a settlement, all parties agreed to an ETS rate of \$1.85/MWh for 2015 and

⁶ EB-2010-0002 Decision with Reasons December 23, 2010 p. 74

⁷ EB-2010-0002 Decision with Reasons December 23, 2010 p. 75

⁸ EB-2010-0002 Decision with Reasons December 23, 2010 p. 75

⁹ EB-2012-0031 Decision and Order June 6, 2013 p. 4

¹⁰ EB-2014-0140 Exhibit H1-05-01, Attachment 1

2016 which was midway between the previous approved rate of \$2.00/MWh and the recommended rate of \$1.70/MWh. The OEB accepted that proposal. The OEB approved the continuation of the ETS rate at \$1.85/MWh for the years 2017 to 2022.

In approving the ETS rate for 2020-2022, the OEB recognized that this rate was established as part of a settlement proposal and while the rate was informed by a previous cost allocation study, it was not derived solely on a cost basis.

As part of the 2020-2022 proceeding, Hydro One filed an update to the 2015 Elenchus cost allocation model using updated information and calculated an ETS rate of \$1.25/MWh. The decline was attributable to decreased OM&A costs from 2015 to 2019, and an increase in forecast export volumes. The OEB found that while the allocation of some shared network costs would increase the ETS rate, the current volume of exports and lower Hydro One OM&A costs would have an offsetting effect, the extent to which is unknown. Thus, the OEB again determined that further work is required before amending the rate.¹¹ In its Decision the OEB requested that Hydro One provide the following in its next rebasing application:

- An ETS study using a cost allocation methodology that includes the allocation of shared network costs to exporters.
- An updated ETS jurisdictional review that provides the rates in other jurisdictions, rationale behind those rates and market implications.¹²

Current Application

In response to the OEB's Decision in 2020-2022 rates, Hydro One filed the following:

- Export Transmission Service Rate Cost Allocation Methodology prepared by Research Associates Inc. (Elenchus);¹³
- Jurisdictional Review of Export Transmission Service (ETS) Rates Study by Charles River Associates (CRA);¹⁴ and
- Market Implications of the Export Transmission Service Rate prepared by the Independent Electricity System Operator (IESO).¹⁵

In addition, intervenor evidence was filed in this proceeding. On behalf of the Association of Power Producers of Ontario (APPRO), Power Advisory prepared an Expert Report for the market impacts of changes to the ETS rate.

¹¹ EB-2019-0082 Decision and Order April 23, 2020 p. 176

¹² EB-2019-0082 Decision and Order April 23, 2020 p. 183

¹³ Exhibit H-9-1 Attachment 1

¹⁴ Exhibit H-9-1 Attachment 2

¹⁵ Exhibit H-9-1 Attachment 3

AMPCO Submission

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?

Yes. Exporters contribute to the cost of the transmission system through two mechanisms. The first mechanism is through the ETS rate, a fixed volumetric charge. The second mechanism is through the ICP mechanism, a dynamic charge set based on its market value, administered through the IESO-administered market. ICP revenues are collected entirely from intertie importers and exporters for the purpose of offsetting transmission service charges. All exports and wheel-through transactions in Ontario are subject to the Intertie Congestion Price.¹⁶

Exporters contribute approximately \$30-40 million per year towards the transmission system through the ETS rate and pay an average of \$160 million per year towards the cost of the transmission system from the ICP mechanism.¹⁷

Based on the current ETS Rate of \$1.85/MWh, Hydro One's forecasted ETS rate revenues during the 2023 to 2027 period are approximately \$37M per year¹⁸, which reduces Hydro One's Transmission Revenue Requirement for these years.

Table 1: ETS Revenue Forecast

Year	ETS Revenue (\$M)
2023	\$37.3
2024	\$37.1
2025	\$37.3
2026	\$37.2
2027	\$37.2

AMPCO submits it is appropriate to continue to rely on an ETS rate and on ICP to charge for export service. While the two are closely linked, they have different purposes. The ICP is not a transmission tariff. The ICP allocates access to interties. The ETS rate allocates access to the IESO-controlled grid.

ICP is only a positive value when there is some form of congestion present on the system, which does not occur at all times. At a time when there is no congestion on the system, importers / exporters only pay the ETS, which if it was set to zero, would mean that they can access the system at those times for free. Clearly, this is not appropriate.

¹⁶ Exhibit I Tab 1 Schedule 1 Page 3

¹⁷ Submissions on the ETS Rate Attachment 3

¹⁸ Exhibit H Tab 9 Schedule 1 Page 5

The purpose of the ICP is a dynamic pricing mechanism that automatically adjusts to changing market conditions and utilizes any surplus generated by that mechanism to offset costs for Ontario consumers. The IESO achieves this purpose by disbursing any surplus in the Transmission Rights Clearing Account (TRCA) to Ontario consumers. The ICP has disbursed significant revenues back to domestic consumers through reduced transmission costs.

The ETS rate is a transmission tariff to cover the costs of using the Transmission system. The ETS rate impacts both transmission rates for electricity customers in Ontario (as a revenue offset) and costs for exporters. The ETS rate is a fixed charge applied on all exports regardless of market conditions. AMPCO submits both the ETS and the ICP are required to appropriately charge for export service.

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

The ETS rate impacts both transmission rates for electricity customers in Ontario and costs for exporters. In considering the evidence in this proceeding, AMPCO's position is that the ETS rate should continue to exist alongside the ICP and remain at \$1.85/MWh.

In AMPCO's submission, the evidence filed provides no compelling justification to land on a particular numerical value for ETS. Therefore, AMPCO does not see any reason to change the rate at this time. There continues to be many competing views advanced by stakeholders with respect to the appropriate basis for, and level of the ETS rate. The evidence does not result in the development of an unassailable principle-based new rate.

Elenchus

Elenchus presents three ETS rate options based on different methodologies for allocating Shared Network Asset-related costs to exports on a cost causality basis (\$6.54/MWh, \$3.66/MWh, and \$5.42/MWh respectively),¹⁹ all of which are above the current ETS rate of \$1.85/MWh and the historical \$1-\$2/MWh range. The Elenchus report presents options but the view expressed by Elenchus is that whether or not the OEB should change ETS rates to reflect those network costs is a broader policy question for the OEB to determine.²⁰

CRA

CRA found that ETS rate levels in general have increased since 2012 but display no changes in rate design. The observed rate level changes are attributable to inflation and transmission expansion since 2012.²¹ The IESO points out that the CRA review of export tariffs in other

¹⁹ Adjusted to include other transmitters' approved revenue requirement

²⁰ ETS Rate Submissions p. 9

²¹ ETS Rate Submissions p. 10

jurisdictions may suggest Ontario's ETS rate of \$1.85/MWh is low and misaligned compared to other regions but other factors must be considered when comparing ETS in other jurisdictions.

IESO

The IESO recommends the rate be set at zero or no higher than the current \$1.85/MWh to maximize efficient use of electricity and promote economic efficiency in the Ontario market.

The IESO expects that any increase in revenue resulting from a higher ETS would be offset by an equivalent reduction in revenue from the ICP, which in turn will decrease the amount that is disbursed from the Transmission Rights Clearing Account TRCA to Ontario consumers. A higher ETS would directly and negatively impact the amount of ICP revenue collected and reduce the total revenue currently returned to Ontario consumers. AMPCO submits this proposal would negatively impact load customers.

Power Advisory

Power Advisory concludes a large increase in the ETS rate will likely increase total system costs that will have to be recovered from Ontario ratepayers and result in higher rates; and conversely a reduction in the ETS rate to \$0/MWh is likely to have reduced total system costs for Ontario ratepayers.

Specifically, Power Advisory calculates that moving the ETS rate from its current level of \$1.85/MWh to \$6.54/MWh, the total impact to Ontario ratepayers is net benefit of -\$42.6 million – amounting to net increase in total system costs. The largest individual impact is the reduction in congestion rent as a result of less exports and less congestion on the province's interties. The cost impact of lowering the ETS rate from \$1.85/MWh to \$0/MWh, would be a net benefit to Ontario ratepayers of \$33.7 million, or \$8.4 million annually. The benefits are a result of increased congestion rent and reduced curtailment from wind turbines and hydroelectric supply.

Power Advisory does not accept the cost allocation methodology proposed by Elenchus, stating the cost allocation methodology does not consider the potential benefit(s) to Ontario ratepayers.

Power Advisory indicates the CRA evidence provides limited discussion on the unique nature of export pricing in Ontario compared to other markets and whether a market-based approach or regulated approach to setting the ETS rate is appropriate.

In considering the above diverse opinions, AMPCO submits there does not appear to be one answer. The cost allocation view points to increasing the ETS rate, whereas the market view

says reduce it. These are extreme views and neither provide sufficient rationale to move off the current ETS rate of \$1.85/MWh.

The current ETS rate of \$1.85/MWh is not the product of an objective, principled, or programmatic study. However, AMPCO is of the view that the evidence in this proceeding is insufficient to justify movement in the current ETS rate.

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

There is another key issue the OEB should consider when deciding the ETS rate – the impacts of the Market Renewal Program (MRP).

The IESO's Market Renewal Program (MRP) is currently underway to modernize Ontario's electricity markets, with a series of projects to address inefficiencies. The expected benefits will span the sector, enable the IESO to realize significant operational improvements, reduce costs for market participants, address known inefficiencies, and establish a robust market to integrate emerging and new technologies.²² In creating conditions for a more efficient bulk electrical system, one component of the MRP is the better use of Ontario's interties.

The MRP 2019 Business Case states "While Ontario currently has a diverse fleet and is interconnected to access resources in neighbouring systems through interties, the current market design and tools are unable to fully utilize these resources. The MRP Energy Stream will correct the pricing at the interties by factoring in the locational marginal price at the intertie in addition to the ICP. Projecting the inefficiency costs of net exports avoided with improved pricing at the interties, a total of approximately \$285 million is expected to be saved over the first 10 years MRP is in operation.²³ The current in-service date is November 2023.^{24 25}

Given the scale, scope and timing of the changes being proposed under MRP and the fact that the ETS rate can also impact the economic efficiency of the market, AMPCO submits any changes to the ETS rate should not be done in isolation without consideration of the impacts of MRP. Changes in the ETS rate can impact the volume of export transactions in the Ontario electricity market, which can impact the economic efficiency of the market and the benefits exports provide to the grid.

Conclusion

In considering the above, it is AMPCO's view that the status quo is appropriate for the ETS rate; it should be left as is and reviewed again once the effects of MRP are known and realized.

²² Market Renewal Program Energy Stream Business Case OCTOBER 22, 2019 p. 8

²³ Market Renewal Program Energy Stream Business Case OCTOBER 22, 2019 p. 39

²⁴ The IESO has identified there will be a delay to the November 2023 in-service date and will share changes to the project schedule with stakeholders towards the end of Q3

²⁵ EB-2022-0002 Exhibit H Tab 4.1 Schedule 1 – 4.1 OEB STAFF 19 a)