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September 26, 2022

**EB-2021-0243 - Generic Proceeding on Uniform Transmission Rates (UTR) and the
Export Transmission Service (ETS) Rate
Pollution Probe Reply Submission**

Dear Ms. Marconi:

In accordance with OEB direction for the above-noted proceeding, please find attached Pollution Probe's Reply Submission.

Respectfully submitted on behalf of Pollution Probe.

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ONTARIO ENERGY BOARD

EB-2021-0243

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

September 26, 2022

Submitted by: Michael Brophy

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1.0 Introduction

Pollution Probe has reviewed the submissions by other parties and provides the following reply submission. This submission is primarily focused on the key issue with respect to the ETS rate and in response to other submissions filed.

The second section of this submission highlights arguments made by others and address some key issues; the third section focuses on the public record and evidence in this proceeding, that informs the directions recommended for the OEB. The final section is a high-level recap of the key issues and closing comments.

2.0 Highlights and Issues from Other Submissions

Pollution Probe notes that some Intervenors and Board staff have put forward submissions suggesting an ETS rate increase, and in some cases a material increase. In most cases, little to no evidentiary references were provided to support maintaining or increasing the ETS rate. Arguments in support of a higher ETS rate are based on theoretical interpretations of siloed regulatory fairness and cost allocation principles, rather than real market impacts, public interest and what is needed in Ontario to meet consumer and policy needs.

A number of Intervenors, including Board staff have recommended a materially higher ETS rate ranging from \$3 to \$5.42/MWh. Some have argued that the IESO and Power Advisory did not provide adequate certainty in their analysis that a higher ETS rate would have a negative impact on Ontario ratepayers. These are reactionary criticisms and parties that have done that provide the OEB no alternative evidence to support their assertions. As one example, OEB Staff stated the following:

“OEB staff submits that while exports support power system operability and economic efficiency, neither the IESO or Power Advisory has proven that an increase to the ETS rate will result in a greater need to curtail or shut down Ontario generation for reliability management purposes.”¹

We respectively disagree and suggest that the IESO and Power Advisory presented sufficient evidence with respect to the risks of a higher ETS rate as outlined in Section 3 of this reply submission. The balance of evidence clearly supports negative consequences should the ETS rate persist.

It is important to note that many submissions are also from stakeholders representing a specific subsets of customers and when viewing issues from a siloed perspective, Pollution Probe is able to understand why they have made certain proposals. However, this issue cannot be prudently viewed from a siloed perspective and arrive at an optimal outcome. Siloed views are suboptimal for decision making and routinely strand value, resulting in inefficiencies, higher

¹ EB-2021-0243, OEB Staff Submission, September 6, 2022, page 18

longer-term costs and barriers to modernization of Ontario’s energy system. Stakeholder opinion is not a substitute for expert evidence.

Similarly, public interest will not be served by applying siloed thinking that ignores system benefits, policy advancement (e.g.: removing barriers to distributed energy resources) and an optimal system solution. Using siloed, status quo or “old school” thinking is not going to enable Ontario to make the progress it needs to modernize and optimize its energy system for the future.

There are stakeholders in this proceeding that have taken a more inclusive and integrated view of the issues in line with greater public and system benefits. Many of these stakeholders provided expert witnesses and evidence in support this perspective. In particular, the IESO is in a unique position to understand how all the moving parts fit into the longer-term big picture in a cost-effective manner - that also aligns with OEB and Ontario policy objectives.

Pollution Probe remains of the view that the Panel should give strong consideration for broader public and system benefits, specifically the net economic benefits to ratepayers as the IESO outlined in their original submission²; in addition to reducing the operational and technical risks to Ontario’s baseload fleet from curtailments and shutdowns.³

3.0 Evidence that Informs Pollution Probe’s Core Recommendation

The optimal decision as outlined in our submission is to set the rate to zero. However, should the OEB decide to set a rate other than zero as we recommended, the rate should be set at a number as close to zero as possible and certainly no higher than the current \$1.85/MWh. This is consistent with the position in our original submission based on the evidence in this proceeding and the positions of expert parties including the IESO.⁴

Pollution Probe’s perspective is informed by the evidence in this proceeding and broader stakeholder interests, including Ontario consumers and communities. Reducing the rate to zero will remove barriers to advancing cost-effective energy and emissions plans and policy across Ontario; including municipal energy and emission plans supported by the OEB and Provincial policy.

Pollution Probe’s position is aligned with that of the IESO, which was outlined in their original submission⁵ and reiterated in their submission on September 6, 2022.⁶

² 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

³ EB-2021-0243, KP1.4, Presentation Day, 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”

⁴ EB-2021-0243, Pollution Probe submission, September 6, 2022, page 7

⁵ EB-2021-0243, Joint submission from Hydro One Networks Inc. and the Independent Electricity System Operator regarding the ETS rate, October 14, 2021, page 13 of 14

⁶EB-2021-0243, Written Submissions of the IESO, September 6, 2022, page 6

“Therefore, 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.”

We believe it is worth restating that the net economic benefits to Ontario estimated by the IESO are material - up to \$½ billion annually.

“The IESO estimates that exports of energy from Ontario contributed between \$330 and \$520 million annually to Ontario between 2017 and 2021 in the form of congestion rent payments, ETS revenue, payment of uplifts and avoided system costs.”⁷

One of the IESO’s core strategic objectives is to deliver reliable and cost-effective electricity for Ontario.⁸ As a government directed organization with the operational experience, power markets insight and a broader public interest mandate their voice matters. In our view their recommendations supported by the evidence presented in this proceeding should carry significant weight with the OEB.

Importantly, the net economic benefits outlined by the IESO aligns with one the OEB’s legislative objectives for the electricity sector.

“To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.”⁹

Pollution Probe recommends against any increase in the ETS rate. The evidence supports our conclusion that the downside risks far outweigh any potential economic benefit from generating additional ETS revenues. Specifically, any potential incremental ETS revenues are significantly smaller than the overall net benefits that could be lost to Ontario ratepayers.

In the IESO’s presentation on August 4th, they stated that an increase in the ETS rate will result in higher costs for Ontario ratepayers.

“Any increase in the ETS rate..... will reduce the value of Ontario’s interties, leading to less system flexibility and higher costs for Ontario ratepayers.”¹⁰

Additionally, Mr. Tom Chapman, Senior Manager Wholesale Market Development with the IESO believes interties have played a critically important role and will continue to play an important role in the future.

“And the final point I would like to add here is that interties have played a critically important role to date, and that importance is actually growing as we transition away from more conventional, predictable sources of power, and we bring online, you know, increasing intermittent generation in some of the new emerging technologies. So as we

⁷Ibid, page 9

⁸ IESO Corporate Strategy, 2022-2027, page 9

⁹ OEB Strategic Plan 2021/22 – 2025/26, page 6

¹⁰ EB-2021-0243, KP1.4, IESO Presentation, slide 10

transition to a cleaner grid, but a slightly more unpredictable grid, the value of inerties and efficient inertia trades is increasing, and that isn't just in Ontario, that is commonplace across North America.”¹¹

Curtailments and shutdowns are a reality Ontario has experienced as recently as 2017 and 2018. Based on the depth of evidence presented in this proceeding, an ETS rate lower than the current rate reduces the risk and level of any future curtailments and shutdowns. Any increase in the ETS rate on the other hand will contribute to unnecessary curtailment and shutdown costs being passed on to Ontario ratepayers through the Global Adjustment.

“We saw that, as I mentioned, in 2017, 2018, where even with the exports, we had so much baseload generation that there were times when we were in those years doing up to 1,000 nuclear curtailments, there were two to three complete nuclear shutdowns. So, we would advise against any decisions that could potentially put us in those types of situations in the future.”¹²

Additionally, the IESO believes the current structural supply demand conditions will remain in place for the foreseeable future (5-10 years) maintaining the need for and value from exporting electricity out of the province.

“Our perspective is while Ontario maintains a high share of baseload assets in its supply mix with low marginal cost, it will create the right conditions to facilitate significant volumes of exports relative to our neighbouring jurisdictions that have a much smaller share of baseload resources and a much higher marginal cost.”¹³

“So, from our perspective, it is hard to pinpoint precisely what the congestion rents will be, but we have a high degree of confidence that while the structural supply mix conditions are in place, it will create favourable trading opportunities and we will continue to collect congestion rents. So, for the foreseeable future at least we don't see a material reduction in congestion rents that we will collect.”¹⁴

“MS. ANDERSON: Thank you. That leads into where my next question was going. You use the term "in the foreseeable future" that we will continue to have these exports. What is your definition of the foreseeable future?

MR. CHAPMAN: Well, I mean I would say in the next five to ten years would be, you know, if I am put on the spot.”¹⁵

As we stated in our submission, the core conclusions of the Power Advisory report are directionally aligned with the IESO - that is a lower ETS generates positive net economic

¹¹ EB-2021-0243, Presentation Day Transcript, page 85

¹² EB-2021-0243, Presentation Day Transcript, pages 87-88

¹³ EB-2021-0243, Presentation Day Transcript, page 91

¹⁴ EB-2021-0243, Presentation Day Transcript, page 92

¹⁵ EB-2021-0243, Presentation Day Transcript, page 111

benefits; whereas a higher ETS rate than the current \$1.85/MWh will have a negative impact for Ontario ratepayers.

“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 net benefit to Ontario ratepayers of lowering the ETS rate to \$0/MWh in that time frame would have been a reduction in costs of \$33.7 million.”¹⁶

We think it is important to add that Mr. Chapman directionally agrees with the conclusions of the Power Advisory analysis.

“I think we have indicated that we directionally agree with the analysis and the conclusions that Power Advisory undertook.”¹⁷

4.0 Recap of Key Issues and Closing Comments

Pollution Probe believes the evidence from this proceeding is clear that the downside risks far outweigh any potential economic benefits from a higher ETS rate and any non-economic benefits that may result from adhering to cost allocation or regulatory fairness principles.

The OEB has the ability to review the ETS rate from time to time and should the circumstances change in the future, the OEB can make any adjustments required. Pollution Probe suggests reviewing the ETS policy again in approximately 5 years.

In our view, the overarching consideration for the Panel is the net economic benefits to ratepayers as the IESO outlined in their original submission¹⁸; in addition to reducing the operational and technical risks to Ontario’s baseload fleet from curtailments and shutdowns.¹⁹

There are additional ancillary benefits in the form of lower regional carbon emissions from operating Ontario’s low/no carbon emission fleet - as an alternative to running higher carbon fleets in neighbouring US jurisdictions.²⁰ Also important, steady uninterrupted baseload fleet operations will improve the long-term cost effectiveness, reliability and the overall capabilities of Ontario’s energy power system.

In closing, we reiterate our recommendation that the OEB reduce the ETS rate to zero. If the OEB determines there are sound policy reasons for an ETS rate greater than zero, Pollution Probe recommends the rate be as close to zero as possible and certainly no higher than the current \$1.85/MWh. We believe this will enable the IESO to continue to use exports as an

¹⁶ EB-2021-0243, Power Advisory, Expert Report for the market impacts of changes to the ETS Rate Date, May, 2022, page 10

¹⁷ EB-2021-0243, Technical Conference Transcript, July 28, 2022, page 115

¹⁸ 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

¹⁹ EB-2021-0243, KP1.4, 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”

²⁰ EB-2021-0243, Pollution Probe submission, September 6, 2022, page 8

essential tool to manage supply and demand; in addition to providing material net economic benefits of up to \$ ½ billion annually for Ontario ratepayers.