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BY EMAIL AND RESS

September 26, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

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

In accordance with Procedural Order No. 3 issued by the Ontario Energy Board (the "OEB"), please find enclosed Hydro One Networks Inc.'s responding submission.

An electronic copy of the submission has been submitted using the OEB's Regulatory Electronic Submission System.

Sincerely,

Stephen Vetsis

cc. EB-2021-0243 parties (electronic)

HYDRO ONE NETWORKS INC.

RESPONDING SUBMISSION

Generic Hearing on UTR Issues

Phase 1: Export Transmission Service Rate

EB-2021-0243

September 26, 2022

IN THE MATTER OF the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15 (Sched. B) (the "Act");

AND IN THE MATTER OF a motion by the Ontario Energy Board under sections 19, 21 and 78 of the Act to consider various issues related to Ontario's Uniform Transmission Rates.

RESPONDING SUBMISSION

A. INTRODUCTION

Through a procedural order issued as part of Hydro One Networks Inc.'s ("Hydro One") joint transmission and distribution rate application, the Ontario Energy Board (the "OEB") advised of its intention to commence a generic proceeding on its own motion to review a number of issues related to Uniform Transmission Rates (UTRs).[1] The OEB issued Procedural Order No. 1 in this generic proceeding on November 30, 2021, indicating that the first phase of the proceeding would focus on reviewing and setting the Export Transmission Service (ETS) rate.[2] Hydro One is an intervenor in this proceeding. On September 6, 2022, Hydro One and other parties, as well as OEB staff, filed submissions on setting of the ETS rate. The following are Hydro One's additional submissions in response to the submissions of other parties on setting the ETS rate.

Hydro One has appreciated the opportunity to consider and explore the complex issues associated with ETS rate-setting with the parties throughout this proceeding, and to share the company's perspectives and expertise in an effort to inform their analysis. In Hydro One's view, the ability to consider these issues has been enhanced by the use of a generic proceeding.

The submissions from the parties are diverse, but there are some areas where the parties appear to be well aligned. All but two of the parties agree that the ETS rate should continue to exist

[1] See EB-2021-0110, Procedural Order No. 1 dated September 17, 2021, p. 3.
[2] See EB-2021-0243, Procedural Order No. 1 dated November 30, 2021.

alongside the Intertie Congestion Pricing (ICP) mechanism.[3] In addition, many of the parties support a cost-based approach, but not a purely cost-allocation based approach, to setting the ETS rate. There is broad support for the Elenchus cost allocation methodology and its use as a starting point for setting the ETS rate, subject to minor concerns about certain details of the methodology and which scenario provides the most appropriate starting point. There also appears to be broad support for setting the ETS rate for a period of 5 years, though the parties are divided on whether the rate should remain stable or be adjusted annually during that period. In terms of a recommended ETS rate, the proposals are wide-ranging and include zero, a small reduction to $1.50/MWh on a test basis, holding at $1.85/MWh, increases to $2.00, $3.00, $3.64 or $3.66/MWh, or phased-in increases to $5.03 or $5.42/MWh over multiple years.

Hydro One considers and addresses the submissions of the parties in the sections that follow.

B. RESPONSE SUBMISSIONS ON WHETHER TO MAINTAIN ETS RATE

On the question of whether it is appropriate to continue to rely on both an ETS rate and the ICP mechanism to charge for export service, with the exception of APPrO and Pollution Probe, all parties agree that both the ETS rate and the ICP mechanism should continue to apply.

1. Submissions in Support of Maintaining ETS Rate

As explained in Hydro One's Submission, ETS is transmission service relating to the use of the IESO-controlled grid for the transmission of energy out of the IESO-control area and into neighbouring transmission systems. The ETS rate is intended to recover the cost of export customers' use of the transmission system from which they benefit. The ETS rate therefore serves an important purpose, limits cross-subsidization between Ontario transmission customers and export customers, and should continue to exist. The purpose of the ETS rate is distinct from

[3] APPrO and Pollution Probe propose there be no ETS rate.

the purpose served by the ICP mechanism, which is a market-based mechanism used to allocate capacity on the interties when there is more demand than capacity.[4]

Other parties make similar observations, with which Hydro One agrees. OEB staff states that the ETS and ICP serve different functions and their revenues serve to offset different costs;[5] SEC states that the ETS rate and ICP are different types of charges meant to reflect different sets of costs that exporters should be required to pay;[6] and LPMA states that the two charges capture different revenues, with ETS being a regulated rate that reduces transmission costs for domestic users and ICP being a market driven revenue that reflects the willingness of exporters to pay when interties are congested.[7]

Hydro One also agrees with the submissions from SEC, CME and VECC that recognize the ICP as part of the price for energy that exporters pay and not as a charge for exporters' use of the transmission system. SEC explains that exporters make a single bid which reflects what an exporter is willing to pay to export energy through a specific intertie, and that ICP represents the difference between the market clearing Intertie Zonal Price and the market clearing Hourly Ontario Electricity Price (HOEP). According to SEC, ICP therefore reflects the additional value above HOEP that exporters are willing to pay *for electricity* because of capacity limits on the relevant intertie.[8] CME observes that the ICP allows the IESO to capture part of the profitability of export transactions made possible by the baseload generation mix for which Ontario customers pay.[9] VECC elaborates on why ICP should be considered part of the cost of energy for exporters:

> (The) market structure leads to Ontario market prices (i.e., HOEP) being lower than what would exist in a "true market" where bids by generators would have to

[4] Hydro One Submission, September 6, 2022, pp. 3-4.

[5] OEB Staff Submission, September 6, 2022, p. 3.

[6] SEC Submission, September 6, 2022, p. 4

[7] LPMA Submission, September 6, 2022, p. 2.

[8] SEC Submission, pp. 4-5.

[9] CME Submission, September 6, 2022, p. 8.

> be structured (over time) to cover their full costs. In VECC's view, this is one of the reasons why market prices are lower in Ontario than in neighbouring jurisdictions. However, exporters do not contribute to the Global adjustment which is . . . fully paid for by domestic load customers. As a result, exporters can arbitrage and benefit from the differences between Ontario's market prices and those of neighbouring jurisdictions arising from Ontario's hybrid market structure. In VECC's view this is one of the reasons why congestion exists on Ontario interties as frequently and to extent it does such that the ICP mechanism needs to be employed resulting in congestion rents. In this context congestion rents are really an "energy cost". This view is supported by the Brattle Group Report ("Analysis of the TRCA Surplus Allocation Methodology") undertaken for the IESO in 2019:
>
> > "these are not costs that are associated with the physical transmission system, but instead are costs of the energy that is sent through the system."[10]

While the IESO acknowledges that ICP revenues do not offset Hydro One's transmission revenue requirement, the IESO asserts that the intention continues to be that ICP revenues should benefit Ontario transmission customers.[11] In Hydro One's view, regardless of intention, the evidence is clear that while ICP revenues offset costs in the Ontario electricity market, only ETS revenues specifically offset transmission costs for Ontario customers.[12] In any event, the IESO supports the continued use of both the ETS rate and ICP. They note that the combination of the two charges results in an overall export price with both a fixed and a dynamic component, which is well suited to the unique characteristics of Ontario's system and has provided both a degree of revenue certainty from exports while extracting the highest value possible from each export transaction.[13] Hydro One concurs.

[10] VECC Submission, p. 24.

[11] IESO Submission, September 6, 2022, p. 7, footnote 15.

[12] See Exhibit JT-1.3.

[13] IESO Submission, September 6, 2022, p. 6-7.

2. Submissions Against Maintaining ETS Rate

In contrast with the foregoing, APPrO and Pollution Probe argue that the ETS rate should be set at zero or that the OEB should refrain from establishing any rate for exporters' use of the transmission system.

(a) Response to Pollution Probe Submissions Against ETS Rate

Pollution Probe argues that a zero ETS rate is needed for the IESO to continue to use exports to manage supply and demand, to reduce operational and technical risks for Ontario's renewable energy fleet, and to generate net economic benefits for Ontario ratepayers. In addition, Pollution Probe argues that a zero ETS rate will simplify Ontario's electricity market and thereby remove barriers for distributed energy resources (DERs).[14] In Hydro One's view, Pollution Probe's arguments in support of a zero ETS rate are deficient in several respects and should be rejected.

First, there is no compelling evidence that the IESO needs the additional flexibility that might be afforded to it as a result of the higher export volumes expected from a zero ETS rate. The IESO acknowledges that it has effectively managed the grid with an ETS rate within the historical range and states that the risks are manageable at the current rate of $1.85/MWh.[15] From this perspective, reducing the ETS rate to zero would solve a problem that does not exist.

Second, Pollution Probe is advocating for the IESO to be able to continue generating net economic benefits for Ontario ratepayers and cites the estimated benefits ranging from $330 to $520 million annually from 2017-2020.[16] That level of benefits, which Pollution Probe seeks to continue, was calculated by the IESO on the basis of an ETS rate of $1.85/MWh, as well as congestion rents, uplift and avoided system costs during years where the ETS rate was $1.85/MWh.[17] Pollution Probe has not demonstrated why a reduction of the ETS rate to zero is

[14] Pollution Probe Submission, pp. 5, 7-8.

[15] IESO Submission, pp. 2-3, 11.

[16] Pollution Probe Submission, pp. 5, 7.

[17] See Hydro One and IESO, Joint Evidentiary Submission (EB-2021-0243), Attachment C, October 14, 2021, p. 9, Table 1.

needed to maintain that level of economic benefits. With respect to potential incremental benefits, Pollution Probe relies on the Power Advisory estimate that there would have been an additional $34 million in net economic benefits over the four-year period 2018-2021 if the ETS rate were at zero in those years.[18] This represents an average of just $8.5 million per year, which is small relative to the total estimated benefits of $330 to $520 million noted above. Moreover, the Power Advisory estimate is historical rather than forward-looking and was derived based on limited data and a methodology that has been questioned by other parties, as discussed in Part E, below. As such, Pollution Probe has not demonstrated that a zero ETS rate is needed to maintain the level of benefits currently or historically derived from exports in Ontario.

Third, Pollution Probe has not provided or pointed to any evidence to support its assertion that a zero ETS rate will have the effect of removing barriers for DERs in Ontario. In Hydro One's view, it is premature to make any conclusions regarding how any 'simplification' of the market that might result from elimination of the ETS rate would materially impact the introduction of DERs in Ontario.

(b) Response to APPrO Submissions Against ETS Rate

APPrO argues that the OEB should not establish any rate for exporters' use of the transmission system. In addition, APPrO advances as an alternative argument that, if the OEB does not refrain from establishing an ETS rate, ICP revenues should be accounted for in the ETS cost allocation methodology with a maximum of 20% of shared network costs being allocated to export customers. APPrO's arguments, both in relation to s. 29(1) and its alternative argument, are addressed below.

(i) Refraining from Establishing ETS Rate Pursuant to Section 29(1) OEB Act

APPrO argues that the OEB should refrain from setting an ETS rate pursuant to subsection 29(1) of the OEB Act because, due to the presence of ICP charges in the market, there is competition

[18] Pollution Probe Submission, p. 7.

sufficient to protect the public interest. Alluding to the elements of the test for forbearance under subsection 29(1) as previously articulated by the OEB (discussed below), APPrO summarizes the basis for its argument as follows:

> Electricity trading over the interties is an active, competitive marketplace, making intertie capacity a scarce and valuable resource. The evidence demonstrates that exports on the transmission system are competitive and no single trader has market power, particularly: (1) transmission system capacity in all instances will include the use of capacity on the interties for exports; (2) geographic markets for exports are diverse, including NYISO, ISO-EN, MISO, Manitoba Hydro and Hydro Quebec; (3) no concerns, either past, present or future, have been raised by the IESO over the past decade about market share or concentration measures related to ICP; and (4) there are few barriers to entry to participate in ICP.
>
> Forbearance also protects the public interest. Competition will generally serve to minimize the private and social costs of providing service to consumers who are willing and able to pay the cost of rendition.[19]

APPrO's argument that the OEB should forbear from regulating the rate charged for ETS should be rejected. APPrO has fundamentally misapplied subsection 29(1) and, as a result, its submissions on this point are deficient and flawed. The submissions are deficient because they do not demonstrate that the OEB's established requirements for forbearance have been met, and they are flawed because they fail to distinguish between the different services underlying each of the ETS rate and the ICP mechanism. These aspects are discussed below.

Subsection 29(1) of the OEB Act provides as follows:

> **29** (1) On an application or in a proceeding, the Board shall make a determination to refrain, in whole or part, from exercising any power or performing any duty under this Act if it finds as a question of fact that a licensee, person, product, class of products, service or class of services is or will be subject to competition sufficient to protect the public interest.

[19] APPrO Submission, pp. 3-4.

The OEB established its approach to considering whether to refrain from exercising power pursuant to section 29 in the Natural Gas Electricity Interface Review ("NGEIR") proceeding,[20] and applied that approach again in a subsequent decision in respect of Union Gas.[21] The NGEIR proceeding was initiated by the OEB for the purpose of making a determination under section 29 in respect of rates for the storage of gas. The Union Gas proceeding was an application for an interruptible natural gas liquefaction service rate where the OEB was required to consider section 29 as a result of a motion brought by an intervenor. The current proceeding on the ETS rate was not initiated for the purpose of making a determination under section 29, nor did APPrO bring a motion to that effect or otherwise file evidence specifically addressing the elements of the OEB's framework for considering forbearance under section 29. Rather, APPrO has introduced this consideration for the first time through its submissions. Consequently, the parties did not have an opportunity during the proceeding to test the various elements of the OEB's analytical framework.

Section 29(1) of the OEB requires consideration of whether a service or product is subject to competition, and whether the level of competition is sufficient to protect the public interest. In the NGEIR proceeding, the OEB established the analytical framework that it uses to assess these aspects. As discussed below, APPrO has attempted to apply the framework simplistically and without regard for the specific requirements articulated by the OEB in the NGEIR proceeding. The key elements of the analytical framework are as follows:[22]

- *Identification of the product market* – The product market identifies a set of products that are reasonably good substitutes for one another. A product and a substitute product will be considered to belong to the same product market where buyers will respond to a price increase by switching in significant numbers to the substitute product.

[20] OEB, NGEIR, Decision with Reasons, EB-2005-0551, November 7, 2006 ("NGEIR Decision").

[21] OEB, Decision with Reasons, EB-2014-0012, April 9, 2015 ("Union Gas Decision").

[22] NGEIR Decision, pp. 30-44. See also Union Gas Decision, p. 5.

- *Identification of the geographic market* – The geographic market is the area from which suppliers compete effectively for the business of a given group of customers.

- *Calculation of market share and market concentration measures* - The identification of geographic market and product market boundaries allows the calculation of measures of market concentration, both corresponding to individual firms (market share) and measures of concentration for the market as a whole. The former gives an indication of the potential for a single firm to exercise market power, whereas the latter is an overall indicator of how competitive the market is likely to be.

- *Assessment of the barriers to market entry* - Market power analysis typically includes an assessment of the conditions for entry for new suppliers, together with any dynamic efficiency considerations (such as the climate for innovation and the likelihood of attracting new investment).

- *Overall analysis of the public interest* – The Board's legislative objectives provide a clear expression of the public interest considerations that should be taken into account, but these will require public interest trade-offs.

Regarding the first element of the analytical framework, APPrO asserts that "the relevant product market is the use of transmission capacity for exports".[23] This is flawed and APPrO has provided no evidence to support its assertion. Use of transmission capacity for exports does not constitute a product market. A person that chooses to export electricity from Ontario has no alternatives but to use the transmission service that is available. There are no substitute services available that would enable exporters to deliver power to neighbouring electricity markets, they must accept the transmission service that is available in Ontario. Moreover, exporters have no choice regarding which transmitter provides that transmission service. Without choice, there is no market for the delivery of electricity for purposes of export. While an exporter may choose to

[23] APPrO Submission, p. 11.

transact with another jurisdiction or at different interties or not at all, that optionality is a function of the product market for exporting energy or intertie capacity to which the ICP relates, which is already subject to competition and is unregulated. The existence of that market does not imply that there is a product market for the use of transmission capacity for exports, nor does competition in that market support any need to refrain from establishing a rate for export transmission service.

Regarding the second element of the analytical framework, APPrO asserts that "the relevant geographic market relates to exports from the Province of Ontario to neighbouring jurisdictions where physical intertie capacity exists".[24] Again, APPrO has failed to distinguish between the provision of transmission service for exports (to which the ETS rate relates) and the provision of energy for export or intertie capacity (to which the ICP relates). The geographic market described by APPrO relates to the market for exporting energy or intertie capacity. There is no geographic area in respect of which suppliers of transmission services compete for the business of export customers. Ontario transmitters operate natural monopoly utility businesses. They are not in competition with one another to provide transmission services, nor do export customers have the ability to choose which transmitters to receive service from.

Regarding the third element of the analytical framework, APPrO asserts that "neither the IESO, nor the MSP, have expressed any concerns with regards to market share and concentration measures related to the ICP".[25] This assertion is revealing in two ways. First, it confirms that APPrO's analysis is focused on the ICP and the market for exporting energy or intertie capacity, and not the ETS rate or the provision of transmission service for exports that it is asking the OEB to refrain from regulating. Second, APPrO's inability to provide calculations of measures of market concentration or measures of concentration for the market as a whole, as required by

[24] APPrO Submission, p. 11.

[25] APPrO Submission, p. 11.

the OEB pursuant to its NGEIR Decision, highlights that APPrO has misapplied section 29 to such an extent that it is not able to put forth the specific evidence that the OEB requires.

Also significant is APPrO's statement that "no single trader has market power".[26] By focusing on traders, APPrO has incorrectly considered the question of market power in relation to *customers* of the product or service at issue, not in relation to the *suppliers* of the product or service at issue. In considering and applying the analytical framework in the NGEIR proceeding, the OEB was clearly concerned with the market power of the relevant suppliers (i.e. Union Gas and Enbridge as the suppliers of gas storage services), not with the market power of those receiving storage service.[27] In respect of export transmission service, the relevant suppliers are Ontario transmitters. The market power of individual traders is irrelevant.

Similar deficiencies can be observed in respect of the fourth element of the analytical framework. APPrO has provided no assessment of the conditions for entry for new suppliers, or of any dynamic efficiency considerations. Rather, APPrO simply points to the administrative requirements that an exporter (which is not a supplier) requires. This is not sufficient, relates to participation in the market for energy exports or intertie capacity, and is unrelated to the provision of transmission service for electricity exports by transmitters.

Based on the foregoing, it is not necessary to consider the public interest component of the analytical framework. APPrO's submissions with respect to forbearance under section 29 are misdirected, flawed and deficient.

[26] APPrO Submission, p. 4.

[27] See NGEIR Decision: ". . . if the concentration in the market is below this value, the market is deemed to be competitive and a new storage supplier will be allowed to charge market-based rates" (p. 28); ". . . the degree of market power that is likely to be possessed by suppliers" (p. 29): "the geographic market is the area from which suppliers compete . . ." (p. 34); "Market power analysis typically includes an assessment of the conditions for entry for new suppliers . . ." (p. 41).

Furthermore, Hydro One takes issue with APPrO's comments – made in the context of its submissions regarding section 29 - about the value of the comparisons with other jurisdictions performed by Charles River Associates ("CRA").[28] Specifically, APPrO states:

> While the U.S. jurisdictions considered by CRA have largely recovered costs for use of the transmission system on a cost-basis, CRA also acknowledged that none of those other jurisdictions have anything equivalent to Ontario's market-based ICP mechanism. As a result, a comparison to those other jurisdictions is not helpful to address this first issue. The existence of ICP makes Ontario's circumstance unique. And a unique approach is required.[29]

In Hydro One's view, APPrO has misunderstood the evidence from CRA. The comparisons with other jurisdictions performed by CRA are relevant and informative to the OEB's consideration of the ETS rate in this proceeding. In particular, notwithstanding the uniqueness of Ontario's circumstances, the testimony from Mr. DesLauriers of CRA clarified that the costs of congestion reflected by the ICP in Ontario are reflected through the locational marginal price in U.S. jurisdictions. This important point is recognized in the submissions from VECC and SEC.[30] For example, as stated at p. 6 of SEC's Submission,

> While the ICP is unique to Ontario, other jurisdictions extract the same value (i.e. type of costs) from exporters through their energy market. Mr. DesLauriers, on behalf of CRA, found that most neighboring jurisdictions have a Locational Marginal Pricing ("LMP") system, and so the value of the ICP (i.e. congestion) is simply reflected in the LMP:
>
> > I think we all agree that congestion -- the costs of congestion are reflected in the transaction in the U.S. jurisdictions. They are just reflected in a different part of the transaction, which is the LMP, which is the locational marginal price, as opposed to an ICP in Ontario, which is an option-based bid for that capacity at that particular inter-tie at that point in time.

[28] APPrO Submission, pp. 4, 14.

[29] APPrO Submission, p. 14.

[30] See VECC Submission, pp. 23-25; SEC Submission, p. 6.

> So congestion costs do play a role. In the U.S., for instance, they provide a signal for where additional economic benefit could be achieved by relieving congestion points on the system.

(ii) Alternative Argument

APPrO advances, as an alternative argument, that if the OEB determines an ETS rate should continue to exist alongside the ICP mechanism, a cost-based approach would provide an appropriate starting point for establishing the ETS rate. However, based on its view that the ETS rate and ICP are both intended to offset intertie infrastructure costs to Ontario customers, and its related belief that exporters are therefore required to pay twice for the use of capacity on the transmission system, APPrO argues that a cost-based ETS rate should be based on:

- Assets dedicated to interconnect being allocated to both exports and imports using the intertie 12CP allocator as recommended in Section 6.2 of the Elenchus Report;
- ICP revenues collected by the IESO for use of intertie capacity from both imports and exports being accounted for in the cost-allocation model in the manner set out in the updated response to JT-2.4 to ensure that intertie users are not paying twice for the same service;
- A maximum of 20% of shared network costs being allocated to export customers in the cost allocation model; and
- In the event the cost allocation model produces an ETS rate that is less than zero, that the ETS rate be set at $0/MWh for that period so that surplus funds from the ICP will continue to go to benefit domestic consumers.[31]

APPrO's alternative argument should be rejected. The focus for Hydro One's responding submission is on APPrO's proposal to include ICP revenues in the cost allocation model for purposes of determining the ETS rate.

Simply put, it is not appropriate to include ICP revenues as part of the ETS cost allocation model. As discussed in Part B, Section 1, above, the ETS rate and the ICP mechanism serve fundamentally different purposes and recover the costs of distinct services. The purpose of the ETS rate is to

[31] APPrO Submission, pp. 4-5, 18.

recover the cost of export customers' use of the transmission system from which they benefit.[32] The purpose of the ICP is to competitively, fairly and transparently allocate access to an intertie when there is more demand than capability, resulting in efficient use as part of the operation of the wholesale electricity market.[33] Indeed, some parties argue that the ICP should be viewed as a cost of energy.[34] Elenchus provides its expert view that "(t)he revenue recovered from a class for one service should not be the basis for reducing revenues to be collected for a separate service".[35] It is therefore not appropriate for the ETS cost allocation model to include revenues generated by ICP.

Moreover, as part of its response to Undertaking JT2.4, Elenchus identifies several additional qualifications on the calculations it was asked to provide therein. This is important because those calculations form the backbone for APPrO's alternative proposal and the results of those calculations are reproduced in APPrO's Submission.[36] First, Elenchus notes that export congestion rents are expected to decline if there is an increase in the ETS rate, so the amount of congestion rents used to calculate the amounts in JT2.4 does not represent a reasonable forecast of congestion rents at a different ETS rate. Second, Elenchus notes that it has not proposed a methodology for allocating congestion rent revenues. Third, Elenchus indicates that the scenario requested by APPrO would impact congestion pricing bids and distort the market to a greater extent.[37] Therefore, while Elenchus performed the calculations requested by APPrO in JT2.4, it is clear that Elenchus does not support the use of that modeling as an appropriate cost base for establishing an ETS rate. APPrO's proposed alternative "cost-based approach" and the amounts shown in Table 1 of its submission should be rejected.

[32] Hydro One Submission, pp. 3-4.

[33] VECC Submission, pp. 21, 22 and 28.

[34] See VECC Submission, p. 23; SEC Submission, p. 4-5; and CME Submission, p. 8.

[35] Undertaking JT2.4 (as amended), August 11, 2022.

[36] APPrO Submission, Table 1, p. 17.

[37] Undertaking JT2.4 (as amended), August 11, 2022.

Hydro One also notes and agrees with the following comments from VECC regarding transparency in relation to APPrO's proposal to include ICP revenues in the cost allocation model for purposes of determining of the ETS rate:[38]

> Finally, both the IESO and Power Advisory have emphasized the need for "transparency" in the operation of the Ontario market. Indeed, when asked about "combining" charges, the IESO responded:
>
> > "The IESO does not believe it is feasible or necessarily desirable to consolidate the three charges (ETS, ICP and Uplift) into one charge because they are established under different regimes, are set at different timeframes and serve different objectives…
> >
> > The IESO also notes that consolidating charges would result in less transparency on costs compared to today, leaving exporters with less information on how to manage those costs."

Hydro One also takes issue with APPrO's assertion that export customers are required to "pay twice". It is a catchy refrain that is repeated often in APPrO's Submission,[39] but it is misleading and wrong. As discussed in Part B, Section 1, above, and earlier in this section, the ETS rate and the ICP mechanism serve fundamentally different purposes. Export customers are not paying twice for one service. Rather, they are paying once for each of two distinct services that they require to complete their export transactions - intertie capacity/energy for export through ICP, and transmission service in relation to that energy that it seeks to export through the ETS rate. It is telling that, in APPrO's own submissions, it variously refers to exporters paying twice "for use of capacity on the transmission system" and for "use of intertie capacity".

Finally, Hydro One notes that the OEB may not have the authority to give effect to APPrO's alternative proposal. A change in the manner by which ICP revenues are disbursed would require a change in the Market Rules.[40] That is the purview of the IESO, subject to OEB oversight.[41] As

[38] VECC Submission, p. 26.

[39] APPrO Submission, pp. 4, 5, 16 and 18.

[40] IESO Market Rules, Chapter 8, Section 4.18.2; Chapter 9, Section 4.7.

[41] Electricity Act, 1998, s. 33. See also the Pattani Submission, pp. 11, 19-20 for related discussion.

such, the OEB does not appear to have authority to give effect to APPrO's alternative proposal, particularly within the scope of the current generic proceeding.

C. RESPONSE TO SELECT ASPECTS OF VECC SUBMISSION

This section provides Hydro One's responses in relation to select matters from VECC's Submission. Each of the matters relates to the expert evidence or testimony provided by Elenchus. Therefore, for purposes of responding, Hydro One requested that Elenchus review VECC's submissions and provide its responses as appropriate. Hydro One has incorporated below, without modification, the responses from Elenchus.

1. Methodological Change re Cost Allocation

In its submissions at page 20, VECC writes as follows:

> VECC notes that Elenchus applies the 80% adjustment factor to 12CP value for purposes of allocating not only Shared Network Asset-related costs but also the Shared Generation Line Connection Asset-related costs and Shared Generation Transformation Connection Asset-related costs. In the case of Generation Line Connection and Generation Transformation Connection assets the facilities are designed to meet the requirements of the generators and, as such, there should be no distinction made between Export and Domestic when allocating these costs. In VECC's submission the 100% of 12CP allocator should be used for Exports when allocating these costs regardless of the adjustment made to the 12CP allocation factor for purposes of allocating Shared Network Asset-related costs.[42]

Elenchus comments as follows in respect of the above-noted passage from VECC's Submission:

> VECC submits the 100% 12CP allocator should be used to allocate shared Generation Line Connection Asset-related costs and Generation Transformation Connection Asset-related costs. It is true that Generation-related Network Pool assets are designed to meet generation capacity, but the assets are not fully utilized when exports are curtailed. Utilization of the assets differs from design and the use of Generation-related Network Pool capacity is within the IESO's control for the purpose of transmitting electricity. The Export class's access to Generation Line Connection capacity and Generation Transformation capacity is

[42] VECC Submission, p. 19.

> the same as its access to Network capacity so it is Elenchus's opinion that each of these three functions within the Network Pool should be allocated on the same basis.

Hydro One is in agreement with the above comments from Elenchus, and submits that the OEB should not accept VECC's proposed methodological change. Furthermore, Hydro One notes that VECC's proposed methodological change would not have a material impact on the resulting ETS rate, as per VECC's own estimation.[43]

2. Clarification of Scenario References

In its submissions at page 17, VECC writes as follows:

> In the information request responses (Exhibit I, Tab 1, Schedule 18, Staff 18(b) and (c)) Elenchus indicated that it recommended the first option on the basis that:
>
> > "This option reflects how exporters use the transmission system, which accounts for curtailments in peak hours, and allocates Shared Network Assets and costs to exporters. This option also is similar to how exporters are charged in jurisdictions surveyed by Elenchus, where the export charges are based on domestic revenue requirement.

Elenchus has provided the following clarification in response to VECC's Submission:

> VECC cites[44] the response to Staff-18 part c) which states Elenchus' recommended scenario is Option 1 (100% CP allocation). This recommendation is based on Elenchus' scope of work related to cost allocation. Elenchus views Option 1 as the scenario most aligned with pure cost causality, however, Elenchus acknowledges that there are other policy issues for the Board to consider. Elenchus has not taken a position on other considerations not related to the cost of transmission service, so Elenchus does not specifically recommend any option.

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[43] See VECC Submission, p. 20, where it estimates that this change "would result in an adjusted ETS Rate of $5.48/MWh (as compared to $5.42/MWh based on Elenchus' Option 2". For clarification, Elenchus notes that this is in fact Option 3, the "Curtailment Scenario" (see Table 15 of the Elenchus report). Additionally, on page 47 of its submission VECC describes Option 2 as "12CP Export allocator reduced by 20%", but that scenario is Option 3.

[44] VECC Submission, p. 17.

D. RESPONSE TO SELECT ASPECTS OF LPMA SUBMISSION

This section provides Hydro One's responses in relation to select matters from LPMA's Submission.

1. Investigating Use of Network Charge as Component of ETS Rate

LPMA argues that the OEB should direct Hydro One to "investigate the use of the network charge as a component of the ETS rate."[45] It is Hydro One's submission that the OEB should reject this proposal. The OEB already has before it the Elenchus cost allocation methodology, which has broad support in this proceeding. The Elenchus methodology already includes proposed allocations for costs, as noted in LPMA's submission. Further research and investigation into new methodologies for cost allocation are not necessary and will not be helpful to parties or the OEB in considering or determining the ETS rate in future proceedings.

2. Consideration of Transmitters Other than Hydro One

LPMA states that it does not support the proposal that the assets of all transmitters be used in the calculation of the ETS rate and that ETS revenue should be paid only to Hydro One. To clarify, whether the Network assets of all transmitters are used in the calculation of the ETS rate and whether ETS revenue is paid to other transmitters are two distinct questions.

Regarding whether ETS revenue is paid to other transmitters, Hydro One agrees with LPMA and OEB Staff[46] that ETS should continue to be paid solely to Hydro One as the sole owner and operator of Ontario's interties. As noted by Hydro One in response to Interrogatory Staff-4, notwithstanding that other transmitters apart from Hydro One own Network assets, maintaining

[45] LPMA Submission, p. 6.

[46] OEB Staff Submission, p. 24.

the existing process achieves the same outcome for customers and for all transmitters[47] while ensuring that the settlement process remains simple to administer.

Regarding whether Network assets of all transmitters are used in the calculation of the ETS rate, Hydro One disagrees with LPMA and submits that it is appropriate to continue to include the Network revenue requirement of other transmitters in the calculation of the ETS rate because these other transmitters own Network assets that are used by exporters. Hydro One requested Elenchus' comments, if any, on LPMA's submissions. Elenchus commented on this issue of whether the ETS rate calculation should include the Network assets of other transmitters, as follows:

> On page 7 of its submission, LMPA disagrees with Elenchus' recommendation to gross-up the ETS rate for the Network Pool revenue requirement of all other transmitters because those transmitters do not own interties. Elenchus's proposed cost allocation methodology allocates a share of HONI's Network Pool OM&A and asset-related costs to the Export class. Though other transmitters do not own Interties, they own Network Pool assets that are used by Exporters. It is Elenchus' opinion that the ETS rate should include a portion of the Network Pool assets of all transmitters so the ETS rate calculated with HONI's costs should be grossed-up to include the Network Pool costs of all transmitters.

Hydro One agrees with Elenchus and as indicated above, believes it is necessary and appropriate to gross-up the ETS rate to include the Network Pool revenue requirement of other transmitters in the methodology for calculating the ETS rate. If the Network assets of other transmitters are not included, exporters will be making use of assets owned by other transmitters without paying for their use. Moreover, in Hydro One's view, grossing-up the ETS rate for the Network pool revenue requirement of other transmitters is consistent with the OEB's expectations when it determined in EB-2019-0082 that "the use of shared network facilities by exporters needs to be

[47] A more complicated settlement process that includes ETS payments to other transmitters will result in the same Network UTR for customers.

considered in setting the ETS rates". Hydro One notes that the 2014 Elenchus methodology in EB-2014-0140 included the same gross-up.[48]

3. Time Period for Data

On page 5 of its submission, LPMA states as follows:

> 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 that 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.[49]

Elenchus has provided the following comment on the above submission from LPMA:

> There are three types of load-related data used in the cost allocation model: coincident peak data, the MWh billing determinant, and share of curtailed hours. In Elenchus' view, it is appropriate to use a consistent time period for all load-related data used in the cost allocation model.

E. OTHER ISSUES

1. Weight to be Given to APPrO Expert's Evidence

Hydro One has reviewed the submissions of other parties regarding APPrO's expert evidence from Power Advisory.[50] Those submissions highlight data limitations, methodological concerns, issues with the timing of data, and concerns with oversimplification in the analysis. Based on those submissions and on its own review of that evidence (including input received from Elenchus), it is Hydro One's view that the OEB should put limited weight on Power Advisory's

[48] EB-2014-0140 Exhibit H1, Tab 5, Schedule 1, Attachment 1, Section 5.2.2.

[49] LPMA Submission, p. 5.

[50] OEB Staff Submission, p. 16-17; VECC Submission, pp. 39-44; and SEC Submission, pp. 13-16. Hydro One has not reviewed any of the confidentially filed submissions on these aspects.

quantitative estimates of the costs and benefits of increasing or decreasing the ETS rate. This is not to say that the Power Advisory evidence has been unhelpful. Hydro One agrees that there are real operational and energy market benefits from exports, and that it is reasonable to expect that an increase in the ETS rate could have the effect of reducing exports or that a reduction in the ETS rate could have the effect of increasing exports. Hydro One also agrees that the operational and energy market benefits from exports should be considered in setting the ETS rate. However, Hydro One supports the submissions of OEB Staff, VECC and SEC that there is not adequate support for the specific quantitative estimates of the net impacts of changes to the ETS rate as presented by APPrO's expert.

2. Implementation

In Hydro One's Submissions, it advocated for the ETS rate to be set by the OEB every five years, concurrently with Hydro One's transmission rebasing applications, based on a specific and repeatable methodology, but that for purposes of rate stability there should not be annual mechanistic adjustments to the ETS rate.[51] Clarification regarding Hydro One's views on annual adjustments to the ETS rate is provided in the section below. Regarding implementation of any new ETS rate resulting from the current proceeding, Hydro One did not articulate its views in its earlier submissions. Hydro One's concerns regarding implementation are twofold. First, Hydro One agrees with the concern raised by APPrO that any new ETS rate should not impact pending export transactions. Second, it is concerned with the practicality of implementing a new ETS rate relative to implementation of its 2023 transmission rates, as follows.

For the reasons noted by APPrO, it is Hydro One's submission that if the OEB establishes a new ETS rate it should not require implementation of that new rate until January 1, 2024. As explained by APPrO, auctions have already closed for financial transmission rights for the period ending September 30, 2023 and, by the end of 2022, transmission rights will have been sold for the

[51] Hydro One Submission, pp. 7-8.

period ending December 31, 2023.[52] Hydro One agrees that any new ETS rate should be implemented in a manner that does not impact the economics of export transactions that have already closed.

Some of the parties suggest that the OEB should implement any new ETS rate immediately following the closing of the September auction period, which Hydro One understands to mean October 1, 2023.[53] In Hydro One's view, implementing a new ETS rate mid-year should be avoided as it would impact UTRs and may necessitate leaving UTRs interim until late in 2023 so as to enable them to be updated to reflect a change in the ETS rate as of October 1. In Hydro One's view, any changes to the ETS rate should be made effective January 1st of a given year.

Regarding the practicality of implementing a new ETS rate relative to implementation of its 2023 transmission rates, Hydro One notes that in its joint transmission and distribution rate application that is currently before the OEB in EB-2022-0110, Hydro One has assumed that the ETS rate will remain at the current level of $1.85/MWh. If the OEB establishes a new ETS rate and determines that the new rate should be implemented for 2023, Hydro One will require the OEB's decision on the ETS rate to be issued with sufficient time to enable it to implement that new ETS rate in final rates arising from that proceeding.

3. Annual Changes to ETS Rate

A few parties argue that the ETS rate should be updated annually.[54] In making this argument, SEC states that it does not understand Hydro One's comment from the Technical Conference that annual changes could result in regulatory complexity given that "Hydro One is required to file an annual rate adjustment application for its revenue requirement, and there is no reason it could

[52] APPrO Submission, p. 16.

[53] See SEC Submission, p. 19; CCC Submission, p. 1.

[54] SEC Submission, (para. 62-64); VECC Submission, (page 49) and LPMA Submission, (page 6).

not apply the same methodology to the ETS rate".[55] SEC asserts that it would require limited effort on the part of Hydro One to include the ETS rate in annual updates.

Hydro One clarifies its comment that annual changes to the ETS rate may cause regulatory complexity were not a reference to complexity for Hydro One. Rather, Hydro One's intention was to highlight that changing the ETS rate every year was likely to result in regulatory complexity for stakeholders such as the IESO, who would need to change the rate collected each year, as well as for exporters, who would need to factor the changing rate into their decision-making. As noted by Mr. Vetsis of Hydro One during the technical conference, the benefit to domestic transmission customer UTRs from annual updates to the ETS rate are likely to be minimal from a rate perspective, particularly compared against the increased complexity noted above.[56]

4. Further Studies, Reports and Monitoring

Mr. Pattani argues that Hydro One should be directed by the OEB to develop and maintain a suitably detailed ETS "Cost Allocation Manual" so that future revisions to the ETS rate based on one of the Elenchus options are "relatively mechanistic and do not require an elaborate proceeding".[57]

In Hydro One's view, the OEB should not direct Hydro One to prepare or provide an ETS Cost Allocation Manual as such a manual is not needed. Once the OEB has made a decision in this proceeding, Hydro One would be able to use any of the options in the Elenchus report and model submitted as part of this proceeding to update the ETS rate in a future proceeding.[58]

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[55] SEC Submission, para 63, p. 20.

[56] Technical Conference Transcript, Day 1, July 28, 2022, pages 34 to 36.

[57] Pattani Submission, p. 23.

[58] Hydro One notes that it has done this before. Specifically, Hydro One previously provided an updated ETS rate based on the 2014 Elenchus methodology as part of its 2020-2022 Transmission Revenue Requirement Application (EB-2019-0082, Exhibit I2, Tab 4, Schedule 1, pg. 2-3).

F. CONCLUSION

Based on the foregoing, Hydro One reiterates its submission that the OEB should maintain the ETS rate alongside the ICP mechanism. In respect of the level of the ETS rate, it remains Hydro One's view that the OEB should use cost allocation as a starting point, based on the Elenchus methodology, but, ultimately, the OEB should establish a rate that balances cost recovery from exporters with the objective of achieving broader cost and system benefits for the Ontario electricity system.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 26th DAY OF SEPTEMBER, 2022