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File No. 61604.48

September 26, 2022

DELIVERED BY EMAIL AND RESS

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

Dear Ms. Marconi:

Re: Generic Proceeding on UTR-Related Issues and the Export Transmission Service Rate Association of Power Producers of Ontario (“APPrO”) Submission OEB File Number: EB-2021-0243

We are counsel to APPrO. Please find attached APPrO’s reply submission in the above referenced proceeding, pursuant to Procedural Order No. 3.

Yours Truly,

BORDEN LADNER GERVAIS LLP

A handwritten signature in black ink, appearing to read 'Colm Boyle', is written over a white background.

Colm Boyle

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Sched. B), as amended (the “OEB Act”).

AND IN THE MATTER OF a Generic Hearing on Uniform Transmission Rates Related Issues and the Export Transmission Service Rate.

**SUBMISSIONS OF THE
ASSOCIATION OF POWER PRODUCERS OF ONTARIO**

FILED: September 26, 2022

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I. INTRODUCTION

1. On October 15, 2021, the OEB issued the Notice of Hearing for EB-2021-0243 in respect of a generic hearing on UTR-related issues, the first phase of which will focus on reviewing and setting the ETS Rate (this first phase will be referred to herein as the “**ETS Proceeding**”).
2. On September 6, 2022, the Association of Power Producers of Ontario (“**APPrO**”) filed its written submission in respect of the ETS Proceeding (the “**APPrO Submissions**”). Capitalized terms used in this reply but not otherwise defined herein have the meaning ascribed to those terms in the APPrO Submissions.
3. APPrO is pleased to submit this written reply to the written submissions of OEB Staff, Pollution Probe, Vulnerable Energy Consumers Coalition (“**VECC**”), Energy Probe, London Property Management Association (“**LPMA**”), Hydro One, School Energy Coalition (“**SEC**”), Anwaatin Inc., Independent Electricity System Operator (“**IESO**”), Association of Major Power Consumer in Ontario (“**AMPCO**”), Consumers Council of Canada (“**CCC**”), Naren Pattani, (“**NP**”) and Canadian Manufacturers and Exporters (“**CME**”).
4. The submissions of the various parties in this proceeding exhibit a range of views on the appropriate ETS Rate (ranging from \$0/MWh to \$5.42/MWh), with positions supported by differing views on what matters.
5. Pollution Probe supports reducing the ETS rate to zero, noting the net economic benefits to Ontario ratepayers, the reduced operational and technical risks, the ability to use Ontario’s low carbon assets to offset emissions in neighboring jurisdictions that would otherwise generate electricity using higher carbon assets, and the increased simplicity of the approach in an otherwise complex market.¹ Similarly, Anwaatin supports an ETS rate that will avoid material negative impacts to reliability, facilitates adjustment at a frequency that accounts

¹ Pollution Probe Submissions at pages 7-9.

for rapid and significant changes in Ontario's energy and electricity markets (electrification and the proliferation of DERs, and facilitates the efficient export of clean-low-carbon Ontario electricity to neighboring jurisdictions.² From a purely operational perspective, the IESO would prefer an ETS rate of zero so as to reduce the risk of having to take control measures.³

II. Issue 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?

6. In order to assess the submissions of the various parties, the OEB must first determine the order in which it is going to assess the underlying policy considerations advanced by each of the parties in their submissions.
7. APPrO submits that the OEB must first, as a threshold issue, address whether or not exporters' use of the transmission system is subject to competition through the ICP mechanism that is sufficient to protect the public interest under Section 29(1) of the OEB Act. To do otherwise would be inconsistent with the requirements of the OEB Act.
8. The APPrO Submissions set out why forbearance is in the public interest based on the evidence filed in this case. Competition, rather than regulation, best serves the public interest of all stakeholders in the Province of Ontario.
9. Each of OEB Staff,⁴ LMPA,⁵ SEC,⁶ VECC,⁷ and AMPCO⁸ argue that ETS and ICP serve different functions and their revenues serve to offset different costs and that therefore it remains appropriate to continue to rely on an ETS rate and on ICP to charge for export service.
10. Respectfully, this argument is irrelevant to the forbearance analysis. Even if one accepts the

² Anwaatin Submissions at page 2, paragraph 4.

³ IESO Submission at para 28.

⁴ OEB Staff Submission at page 3.

⁵ LMPA Submission at pages 2-3.

⁶ SEC Final Argument at page 4, paragraphs 13-25

⁷ VECC submission at pages 25-26.

⁸ AMPCO submission at page 4.

premise of this argument - when assessing the public interest under Section 1 of the OEB Act the OEB must take the next step to consider both ETS and ICP from the perspective of the economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity. The inquiry relates to what is best from an overall system perspective. It does not exclude benefits simply because they relate to generation, or transmission, or some other category of benefit.

11. This is what Power Advisory does in their analysis, factoring in not only the benefits associated with the ETS rate but all other benefits associated with exports, in a clear and easy to understand analysis.

12. In this context, it is noteworthy that many of the parties in this proceeding have recognized, whether explicitly or implicitly, the various economic and operational benefits of exports, including:
 - Exports generate additional economic benefits for domestic consumers over and above the revenues generated by the ETS rate;⁹
 - Exports provide operational/reliability benefits when used to manage surplus baseload generation;¹⁰ and
 - OEB staff acknowledged that exports do support power system operability and economic efficiency.¹¹

13. In addition, various parties to the proceeding generally accepted the following propositions:
 - Exports are price sensitive;¹²
 - An increase in the ETS rate will reduce overall export volumes;¹³

⁹ VECC Submission at page 31; SEC Submission at para 40; HONI Submission at pages 9 to 10; Anwaatin Submission at para 14; IESO Submission at paras 19 to 32; NPattani Submission at pages 13 to 18; CME Submission at paras 15, 16, 23, 27 and 32.

¹⁰ VECC Submission at page 35; SEC Submission at para 40; OEB Staff Submission at page 17-18; Pollution Probe at page 8; HONI Submission at pages 9 to 10; Anwaatin Submission at para 14; IESO Submission at paras 19 to 32; NPattani Submission at pages 13 to 18; CME Submission at paras 15, 16, 23, 27 and 32.

¹¹ OEB Staff Submission at page 18.

¹² OEB Staff Submission at page 16, citing page 35 of the Power Advisory Report; CME Submission at paras 27 and 35; SEC Submission at para 47; IESO Submission at para 3.

¹³ SEC Submission at para 44; OEB Staff Submission at page 3; IESO Submission at para 3.

- ICP is a competitive market;¹⁴ and
- Interties with neighbouring jurisdictions provide a range of operational benefits and enhance system reliability for Ontario consumers.¹⁵

A. Arguments about an uncertain future are a red herring

14. OEB Staff,¹⁶ VECC,¹⁷ SEC,¹⁸ CME¹⁹ and LMPA²⁰ argue, in slightly different ways, that the Power Advisory evidence cannot be relied upon because the future is inherently uncertain and could look substantially different than the past.
15. APPrO does not agree.
16. Section 29 (1) of the OEB Act provides (emphasis added):

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.
17. The conjunctive use of the word “or” has a clear and specific meaning. It means that is sufficient to rely on evidence that a class of services **is** subject to competition sufficient to protect the public interest. Put another way, it is sufficient to rely on the actual historical evidence and data underlying the Power Advisory and IESO evidence to discharge this evidentiary burden.
18. The OEB does not also need to satisfy itself that a class of service **will be** subject to competition sufficient to protect the public interest. That would incorrectly be reading an “and” into a legal test where an “or” clearly exists.

¹⁴ VECC Submission at page 28; CME Submission at paras 27(a); IESO Submission at para 35.

¹⁵ OEB Staff Submission at page 17, citing Submissions on the ETS Rate, Attachment 3, the IESO Report, p.15 (16 of 17).

¹⁶ OEB Staff Submission filed on at pages 19-20.

¹⁷ VECC Submission at page 44.

¹⁸ SEC Submission at paras 4, 49, 50-55.

¹⁹ CME Submission at para 34.

²⁰ LMPA Submission at page 3.

19. In any event, should the OEB determine that there is competition sufficient to protect the public interest - APPrO has already proposed a reasonable solution that is intended to ensure continuous independent monitoring of exports and associated benefits over time at paragraph 40 of the APPrO Submissions. This should alleviate any concerns around future uncertainty.
20. In the event the OEB is of the view there is insufficient evidence to complete its assessment of Section 29 of the OEB Act, APPrO submits that the OEB should undertake an additional discovery process to ensure that it gives all the parties an opportunity to present expert evidence to the extent they see necessary. Section 29 was not on the approved issue list and it only became clear during the discovery process that the public interest is best met through forbearance.

B. The impact of data limitations are overblown, misleading and should be disregarded

21. OEB Staff, VECC and SEC argue that Power Advisory's estimates of the net impacts to Ontario ratepayers of changes to the ETS rate may be exceeded by various uncertainties and approximations involved in the analysis and should be treated with caution.
22. APPrO disagrees.
23. Power Advisory has been accepted as an expert in energy market and energy policy analysis.²¹ Power Advisory provides short and long-term price forecasts for dozens of market participants in Ontario, Alberta and a range of U.S. electricity markets, including New York and New England, among others.²² Power Advisory's forecast is currently used in setting the Regulatory Price Plan (RPP) in Ontario.²³ With the exception of the IESO, there is no other party in this proceeding better positioned to opine on impact of exports on the system than Power Advisory.

²¹ Procedural Order No. 2

²² Power Advisory Report at para. 10.

²³ Ibid.

24. In their respective submissions, each of OEB Staff, SEC and VECC ask that the OEB replace Power Advisory's expert opinion with their own. The trouble is each of these parties have made fundamental errors in their respective submissions that call into question their understanding of this complex market. For example, OEB Staff does not accept that an increase in a transaction cost (the ETS rate) will reduce exports.²⁴ This suggests to APPrO that OEB Staff has a fundamental misunderstanding of the economic drivers of exports in Ontario. And as further discussed below, both SEC and VECC appear to not understand a concept as simple as the price elasticity of exports.
25. The only other party in this proceeding with comprehensive market expertise, the IESO, "directionally agrees with the analysis and conclusions that Power Advisory undertook."²⁵ The IESO expects the market implications of a higher ETS rate would be a: (a) corresponding decrease in ICP revenue; and (b) reduction of exports and adverse impact to operational/economic benefits.²⁶ Revenue from the ETS is only one component of the value that Ontario receives from exports and historically has been the smallest component of the economic benefits associated with exports. When setting the ETS, consideration should be given to maximizing the operational and economic benefits provided by exports by minimizing transaction costs. Any increase in the ETS rate will reduce the value of interties, leading to less system flexibility and higher costs for Ontario consumers.²⁷

C. Every dollar matters when it comes to promoting economic efficiency and cost effectiveness of the system

26. OEB Staff further argues that the total net benefits arising from exports as predicted by Power Advisory represents only a very small percentage of the comparable Ontario electricity system costs of \$21 billion per year.²⁸
27. This would be akin to arguing that Hydro One Transmission should not have to pursue a

²⁴ OEB Staff Submissions at page 18.

²⁵ TC Transcript dated July 28, 2022 at page 115, lines 19-21.

²⁶ HONI Submission filed October 14, 2021, at Page 10 of 14 of ETS Rate Submissions.

²⁷ IESO Evidence at page 3.

²⁸ OEB Staff Submissions at page 16-17.

known and achievable \$1 million efficiency opportunity in its current transmission rate application (EB-2019-0082) simply because the amount is small when compared to Hydro One's Transmission's \$1.62 billion revenue requirement.

28. APPrO does not agree.
29. When the OEB is considering the impact of its decisions on both the economic efficiency and cost effectiveness of the electricity system – every dollar matters. Customers deserve nothing less. Efficiencies are gradual, incremental, and often encompass many small gains made over time that together accumulate into meaningful sums. Efficiency opportunities are not ignored simply because they are a small number relative to total system costs. The vast majority of efficiency opportunities would be rejected on such logic. Rather, the OEB should practice what it requires from all of its regulated utilities – to continuously pursue efficiencies – in accordance with its mandate to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management.

D. Improper Evidence of VECC and SEC

30. For the first time in their final argument, both VECC and SEC introduce new confidential models that contain certain new calculations, analysis and “evidence” in an apparent effort to undermine the conclusions of Power Advisory.
31. This is a patently unfair and abusive breach of the accepted prohibition against the introduction of new evidence in argument. None of these calculations or assertions have been put directly to the Power Advisory witnesses on the record, and they have not been given an opportunity to accept or reject any of the suggestions.
32. This practice may be accepted from time to time by the OEB when certain intervenor groups are dealing with information asymmetry with large and sophisticated utilities, however it is a completely different matter when one intervenor does it to another intervenor, as is the case here. Procedural Order No. 1 provided all intervenors, APPrO, VECC and SEC equally, with an opportunity to file expert evidence to support their

positions, however both VECC and SEC chose not to do so. Accordingly, the OEB panel should disregard or, in the alternative, give limited weight to the new “evidence” filed by VECC and SEC and associated arguments.

E. Methodological concerns with VECC and SEC submissions

(i) Submissions on methodology by VECC

33. The methodology and conclusion with respect to the ETS rate impact on rate payers proposed by VECC is inappropriate; distorts Power Advisory’s analysis; and comes to a conclusion that is materially different than any analysis undertaken by the Market Surveillance Panel. It also contradicts comments from the IESO, the regulatory authority that oversees the Ontario grid and wholesale market and has in-depth knowledge of its complexity on a day-to-day and hour-by-hour basis.
34. The VECC approach vastly underestimates the impact of price changes on export volumes. Using VECC’s analysis, a \$4.69/MWh increase in HOEP when prices are between \$0/MWh and \$4.69/MWh (i.e. increasing every single penny-level price interval by \$4.69/MWh within that range) results in just a 1.8 TWh decline in exports over the 2018 – 2021 time frame.²⁹ This amounts to a decrease of just 10%.
35. When looking at what *actually happened*, however, it becomes clear that export volumes declined by more than 7 TWh in that same price range (as shown in Power Advisory’s evidence) – or nearly 4 times the amount calculated by VECC.
36. The reason for VECC’s much smaller volumes is that it uses an undefined “average” approach that does not account for the fact that export volumes are far more price elastic at the lower end of the price bucket (between \$0/MWh and \$2/MWh for example) than they are at the top range of the price bucket (\$3-\$4/MWh). The VECC approach simply ignores the reality that both the price elasticity and export volumes materially decrease as HOEP

²⁹ VECC Submissions at pages 43-44.

increases and hides the divergence between reality by using an average approach.

37. By contrast, the Market Surveillance Panel (MSP) has previously analyzed the impact on export volumes from a higher/lower HOEP. The MSP found that a “1 percent increase of the HOEP leads to a 4.89 percent decrease in export volume...”³⁰ The MSP then noted that these estimates were both “statistically significant” and in line with a previous analysis.³¹
38. The fundamental flaw in VECC’s approach can be seen when comparing the number of hours when it is “economic” to export power from Ontario to a neighbouring jurisdiction.³² An economic trade occurs when one market price is below that of another when including all transaction costs. Comparing the border price between Ontario and New York in 2019, the average spread between the markets (when including the current ETS) is just \$3.30(CAD)/MWh. Increasing the ETS by \$4.69 fully erases the average spread between markets. New York is one of the largest export markets from Ontario, making it nearly impossible to corroborate VECC’s analysis in comparison to actual price differences between the two markets.³³ Given the very narrow spread in prices for that year, a spread that is less than the proposed increase in the ETS, the logical conclusion is that export volumes would materially decrease or stop for many, if not all, hours, particularly on the New York interties where price spreads are narrow.
39. Additionally, many of the values presented by VECC assume there would be an *increase* in exports with the higher ETS. In other words, the VECC’s approach concludes that higher transaction cost would result in higher flows. This makes no economic sense and is unsupported by evidence or detailed analysis.
40. The congestion rent conclusions from VECC are also similarly flawed. As described at length in this proceeding, congestion rents are determined through export bids by market participants. An increase in the transactional cost of buying power in Ontario would be

³⁰ Market Surveillance Panel, Monitoring Report on the IESO-Administered Electricity Markets for the period from May 2008-October 2008, dated January 2009, at page 79.

³¹ *Ibid.*

³² VECC Submissions at pages 43-44.

³³ *Ibid.*, at page 31.

expected to amount to a corresponding decrease in the export bid (i.e. the price a market participant would pay to buy power in Ontario). Using Power Advisory's filed evidence, reducing congestion rent on every MWh when there is congestion amounts to a near \$172 million decrease in congestion rents over the 2018 – 2021 timeframe. This is within \$3 million of the Power Advisory figure and more than double the figure presented by VECC. Again, the IESO's own market experts noted that it "expects that any increase in revenue resulting from a higher ETS would be offset by an equivalent reduction in revenue from the ICP."³⁴ The VECC figures are vastly different than those from both Power Advisory and the IESO's assessment and have not been tested by any party to this proceeding.

(ii) Submissions on methodology by SEC

41. The approach proposed by SEC introduces a "volume-weighted" number to purportedly show that Power Advisory's analysis overestimates the increase in the ETS and, subsequently, the impact of a higher ETS rate. SEC's approach is flawed, as it also ignores the price elasticity of export volumes within each pricing bucket.
42. As noted in comments regarding VECC's argument, exports are far more price sensitive in the lower end of the price range³⁵ (between \$0-\$2/MWh) and, as such, there are both more export volumes in this lower price range and they are far more price elastic than at the higher range. With the higher price elasticity – i.e. the decrease in export volumes in response to an increase in price – the impact of an increase to the ETS will be far more material than in the higher end of each price bucket.
43. The volume-weighted approach proposed by SEC removes the impact of this price elasticity and distorts the actual impact on export volumes. SEC's analysis is fundamentally flawed. Using the confidential table filed with SEC's argument, volume-weighted prices when HOEP is greater than \$20/MWh are almost identical to the \$4.69/MWh ETS increase. The reason is that the price elasticity in those price ranges is far less diverse from the low

³⁴ HONI Submission at Attachment 3, page 4 of 17

³⁵ See Power Advisory Evidence at Figure 13.

and high end of the pricing bucket and results in a volume-weighted number that is nearly universal across the price bucket.

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

A. If an ETS rate is to continue to exist alongside ICP, the ETS rate should be set in consideration that exporters are paying twice for the same thing.

44. In the APPrO Submissions, APPrO argues that exporters are the only class of ratepayers paying twice for capacity on the physical transmission system.
45. In this context, each of OEB Staff,³⁶ LMPA,³⁷ SEC,³⁸ VECC,³⁹ and AMPCO⁴⁰ argue that ETS and ICP serve different functions and their revenues serve to offset different costs and that therefore it remains appropriate to continue to rely on an ETS rate and on ICP to charge for export service.
46. SEC argues that the ETS rate and ICP are two very different types of charges that are meant to reflect different sets of costs that exporters should be required to pay.⁴¹ Specifically, SEC argues that ICP is a “function of an energy market bid when there are capacity constraints at an intertie that limit the volume that can be physically exported.”⁴² SEC then roughly explains the operations of the IESO’s Intertie Zonal Price (“IZP”) mechanism that is used to establish the ICP to conclude “[i]t is thus more appropriate to consider ICP as part of the price for energy that exporters pay, and not for their use of the transmission system.”⁴³
47. APPrO does not agree.
48. The only reason the IZP is higher than HOEP is because of **limited capacity on the**

³⁶ OEB Staff Submission at page 3.

³⁷ LMPA Submission at pages 2-3.

³⁸ SEC Final Argument at page 4, paragraphs 13-25

³⁹ VECC submission at pages 25-26.

⁴⁰ AMPCO submission at page 4.

⁴¹ SEC Argument at para 13.

⁴² SEC Argument at para 14.

⁴³ Ibid.

interties. Exporters are paying twice for this intertie capacity, once through ICP and once through the ETS rate.

49. It is not disputed that exporters would be paying for intertie capacity under an ETS rate set using the Elenchus cost allocation study. Elenchus proposes to allocate assets and expenses that are categorized as *Dedicated to Interconnect* by the Intertie 12CP between domestic and export class.
50. But exporters are paying again for use of this intertie capacity through ICP. That is because the purpose of the ICP is to allocate scarce transmission system intertie capacity through price signals when an intertie is congested.⁴⁴ This is explained throughout the evidence:
- “The purpose of the ICP mechanism was, and remains, to allocate access to interties.”⁴⁵
 - “The ICP is collected by the IESO and ultimately disbursed back to domestic consumers and exporters to offset transmission service charges.”⁴⁶
 - When there is more export demand than available intertie capacity, exporters compete for scarce intertie capacity by paying the ICP – a premium based on their willingness-to-pay. [...] IESO states that an important feature of the ICP is that it is dynamic and automatically adjusts with the value of the intertie capacity.⁴⁷
 - “Transmission congestion results from competitive bidding by IEs for the use of a scarce economic resource – capacity over the interties.”⁴⁸
 - “...the interties are limited and can handle only a small percentage of Ontario’s total needs. As a result they may often be constrained. When they are constrained the IMO can use the participant’s bids as indications of the value each participant places on use of the scarce intertie capacity. The IMO can then use these bids to allocate use of the intertie to those whose energy bids and offers indicate they place the highest value on that use, thus efficiently allocating the scarce intertie. We considered but ultimately

⁴⁴ HONI IR Responses VECC 13.

⁴⁵ Exhibit JT-1.3, p.8

⁴⁶ IESO Evidence at page 8.

⁴⁷ IESO Evidence at pages 9-10.

⁴⁸ Undertaking Response JT-1.06; Brattle Report at page 13.

- rejected alternative approaches to allocating the interties.”⁴⁹
- “Transmission lines can only accommodate a certain amount of electricity flow at a given time; this limit is referred to as the scheduling limit. Congestion occurs when the quantity of electricity scheduled to flow over the transmission line exceeds the scheduling limit. [...] IESO must determine which transactions are scheduled and which are not: this is done through economic selection. The IESO’s dispatch algorithm schedules transactions based on their economic merit: from low-cost to high-cost for importers, and from high-price to low-price for exporters. Transactions are scheduled in this manner until the intertie’s scheduling limit is reached, or until there are no further economic transactions. In doing so the algorithm looks to maximize the gains from trade.”⁵⁰
51. Furthermore, the auction of transmission rights also reflects the operation of a market that is designed to offset transmission service charges to ratepayers.⁵¹ Disbursements from the TRCA are then paid to domestic consumers and exports in direct proportion to the amount each class contributes to transmission costs.⁵²
52. In this context, SEC then betrays their misunderstanding of the electricity markets by arguing that while the “[w]hile the ICP mechanism is unique to Ontario, other jurisdictions extract the same value (i.e. type of costs) from exporters through LMP.”⁵³
53. APPrO does not agree.
54. The IESO is currently undertaking an energy market renewal which includes the introduction of LMP in Ontario. If SEC’s argument were true, then clearly the IESO would be able to eliminate ICP once LMP was introduced. However, this is not the case. The IESO published its Single Schedule Market High-Level Design in August 2019 which

⁴⁹ Final Report of the Market Design Committee, Undertaking Response JT-1.11 (Attachment)

⁵⁰ Undertaking Response JT-1.11; MSP Report at pages 85-86.

⁵¹ IESO Transmission Rights Workbook (September 2020) at page 3-4, online: <<https://www.ieso.ca/-/media/Files/IESO/Document-Library/training/TRworkbook.ashx>>

⁵² HONI IR Responses OEB Staff IR 37(d).

⁵³ SEC Argument at para. 18.

proposes to introduce LMP in Ontario while maintaining ICP. Specifically:

“For *export-congested interties*, the intertie settlement price will remain consistent with the existing approach of adding the static ICP determined in pre-dispatch to the real-time LMP at the internal node. This approach will allow export transactions to be scheduled in hours with elevated pre-dispatch prices in comparison to real-time, preserving efficiency and competition.”⁵⁴

55. Why is the IESO maintaining both ICP and LMP in Ontario? It is because, contrary to the submissions of SEC ICP and LMP are fundamentally different. Locational marginal pricing, or LMP for short, is used within a particular electricity market to reflect the value of electric energy (both supply and demand) at different locations within the grid.⁵⁵ From an economic perspective, LMP is intended to provide a price signal to new generation to locate closer to demand, and to new loads to locate closer to supply.
56. By contrast, and as discussed above, ICP is used at an intertie between two different electricity markets to allocate access to limited intertie capacity, and thereby extract value from an electricity trade across markets for the benefit of Ontario ratepayers. The vast majority of funds collected under ICP ultimately flow to Ontario ratepayers to offset transmission service charges.⁵⁶
57. The distinction between LMP and ICP are also reflected in the underlying financial instruments that are offered to hedge the underlying risk. Congestion Management Settlement Credits, which will be eliminated through market renewal, are used to incent generators to follow dispatch instructions by reimbursing them costs that result from physical transmission constraints.⁵⁷ By contrast, transmission rights are sold for specific intertie paths through an auction process that allows market participants to reduce price

⁵⁴ IESO, Single Schedule Market High-Level Design dated August 2019 at Section 2.5. Available online at: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/ssm/SSM-High-Level-Design-Aug2019.ashx>

⁵⁵ IESO, Single Schedule Market High-Level Design dated August 2019 at Section 2.1. Available online at: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/ssm/SSM-High-Level-Design-Aug2019.ashx>

⁵⁶ Undertaking Response JT-1.3

⁵⁷ IESO, Congestion Management Settlement Credits, Backgrounder, Available online at: <https://www.ieso.ca/-/media/Files/IESO/Document-Library/Backgrounders/Backgrounder-CMSC.ashx>

risks associated with intertie congestion.⁵⁸

B. The Future is Always Uncertain

58. Various parties argue that the future should look substantially different than the past and evidence based on historical data may not be a good indicator of the future.⁵⁹
59. Respectfully, this position is not helpful and should be rejected outright. It is true for almost every decision the OEB is asked to make.
60. The fact is that the ICP has been in place for nearly two decades and studies, such as the one performed by Power Advisory, using the best available historical data can and should help inform OEB decision making. The historical operation of the ICP market is directly relevant to this proceeding.
61. The anticipated future issues raised by OEB Staff and SEC are speculative and do not demonstrate how this rebuts the main finding of the IESO's and Power Advisory's evidence that any non-zero ETS rate results in an increased transaction cost that serves to prevent some otherwise economically efficient exports from flowing thereby reducing the overall value that exports create for Ontario's domestic consumers.
62. In any event, any concerns about the impact of future changes can be addressed through the process used to revisit and adjust the rate in the future. The facts as they exist today, as presented by the IESO and Power Advisory, should be considered in the OEB's determination.

C. Alberta Allocates 20% of System Costs to Exporters

63. Participants in this proceeding have proposed a myriad of ETS rates based on different perspectives of how transmission costs should be allocated, with OEB Staff proposing the

⁵⁸ IESO Transmission Rights Workbook (September 2020) at page 3-4, online: <<https://www.ieso.ca/-/media/Files/IESO/Document-Library/training/TRworkbook.ashx>>

⁵⁹ SEC Submission at para 50; OEB Staff submission at page 19.

highest ETS rate at \$5.42/MWh (293% higher than current rate).⁶⁰

64. APPrO reiterates that Ontario has competition through the ICP mechanism sufficient to protect the public interest and the OEB should refrain from establishing any ETS rate. In the alternative, however, the APPrO Submission proposed a maximum of 20% of shared network costs be allocated to export customers in the cost allocation model primarily because exports: (i) receive a significantly lower level of service than other domestic customers; (ii) produce other significant economic, system and operational benefits; and (iii) are not considered in transmission network design.
65. In Alberta Utilities Commission application number 1605961 the Alberta Electric System Operator (“AESO”) proposed a tariff for the “Export Opportunity Service” rate on the basis that exporters would contribute 20% bulk system and local system fixed costs. The AESO stated that the charge in the proposed tariff reflects the historical basis for prior export opportunity rates.⁶¹ As noted by Elenchus, bulk system and regional system fixed costs in the AESO’s Export Opportunity Service rate are analogous to the Shared Network function within HONI’s ETS model.⁶² APPrO’s proposal for a maximum allocation of 20% of shared network costs to export customers in the cost allocation model for the ETS rate mirrors what other energy regulators have approved in Canada.

IV. CONCLUSION

66. For the reasons set out in the APPrO Submissions as supplemented above, electricity exporters’ use of the Ontario transmission system is subject to competition through the ICP mechanism sufficient to protect the public interest. Accordingly, APPrO respectfully requests that the OEB refrain from regulating and approving the terms, conditions and rates for the ETS rate pursuant to section 29(1) of the OEB Act. In the alternative, APPrO respectfully requests that the OEB set the ETS rate in accordance with the methodology

⁶⁰ OEB Staff Submission at page 23.

⁶¹ AUC Proceeding 1605961, Doc #0071.01.ISO-530, AESO Responses to Information Requests, May 4, 2010, AUC.AESO-008 (a-b)

⁶² Elenchus Evidence at page 23.

proposed the APPrO Submissions – for the reasons set out therein.

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

BORDEN LADNER GERVAIS LLP

Per:

A handwritten signature in black ink, appearing to read "J Vellone". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

John A.D. Vellone