



PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

September 26, 2022

VIA E-MAIL

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Toronto, ON

Dear Ms. Marconi:

**Re: Generic UTR Issues Proceeding
Export Transmission Service Rate (EB-2021-0243)
Reply Submission of the Vulnerable Energy Consumers Coalition (VECC)**

Please find attached VECC's reply submission in the above referenced proceeding, pursuant to Procedural Order No. 3.

Yours truly,

A handwritten signature in black ink, appearing to read 'W Harper', is written in a cursive style.

William Harper
Consultant for VECC/PIAC

Email copy:
All parties to EB-2021-0243



PUBLIC INTEREST ADVOCACY CENTRE
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**Generic Hearing on Uniform Transmission
Rates-Related Issues and
the Export Transmission Service Rate**

(EB-2021-0243)

Reply Submission of the
Vulnerable Energy Consumers Coalition

September 26, 2022

**Vulnerable Energy Consumers Coalition
Public Interest Advocacy Centre**
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1. INTRODUCTION

On August 5, 2021 Hydro One Networks Inc. (“Hydro One” or “HONI”) filed an application with the Ontario Energy Board (“OEB”) under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the rates that it charges for electricity transmission and distribution, beginning January 1, 2023 and for each following year through to December 31, 2027. As part of the Application, Hydro One filed evidence¹ regarding the Export Transmission Service (ETS) rate, including: i) a cost allocation study prepared by Elenchus Research Associates, ii) a jurisdictional review prepared by Charles River Associates (CRA) and iii) commentary by the IESO regarding the market implications of the ETS rate.

On October 15, 2021 the Ontario Energy Board (the “OEB”) issued a Notice that it intended to hold a public hearing on its own motion under sections 19, 21 and 78 of the OEB Act to consider various issues related to Ontario’s Uniform Transmission Rates (UTR). The Notice indicated that the first phase of the hearing would focus on reviewing and setting the Export Transmission Service (ETS) rate.

Subsequently the OEB issued Procedural Orders² setting out the process by which it would review the ETS rate and related issues. This process included: i) establishing an Issues List, ii) providing for information requests regarding the evidence filed by Hydro One and the IESO, iii) providing for evidence to be filed by OEB Staff and/or intervenors, iv) providing for information requests regarding evidence (if any) filed by OEB Staff or intervenors, v) providing for a Technical Conference where parties could seek further clarification on any of the information request responses, vi) providing for a Presentation Day where those parties that had filed evidence would present an overview of their evidence to the OEB Panel and respond to any questions of clarification by the OEB Panel, vii) providing for untranscribed discussions amongst participating parties to synthesize the evidence, share perspectives and discuss options, viii) the filing of written submissions and ix) the filing of reply submissions.

¹ EB-2021-0110, Exhibit H-Tab 9-Schedule 1

² Procedural Order No. 1 (November 30, 2022), Procedural Order No. 2 (April 1, 2022) and Procedural Order No. 3 (August 26, 2022)

Set out below are VECC's reply submissions regarding the ETS rate. VECC's reply submission is organized so as to address the main points or themes raised by other parties. VECC has sought to avoid repetition of the points raised in its initial September 6th submission and has not addressed other parties' submissions on a line-by-line basis. Silence on particular matters should not be interpreted as agreement with other parties' submissions.

2. VECC's REPLY SUBMISSIONS

2.1 Set ETS Rate at "Zero" or Less Than \$1.85/MWh

Some parties have recommended that the ETS rate be set at zero (Pollution Probe³ and APPrO⁴). The IESO requests⁵ that "the OEB set the ETS rate at zero or no higher than its current level of \$1.85/MWh for the duration of the 2023-2027 rate period". Similarly, while Anwaatin does not make a specific recommendation⁶ regarding the ETS Rate, VECC interprets its submission as calling for the ETS rate to be set at the current level of \$1.85/MWh or lower. Other parties have recommended that the ETS Rate be reduced slightly (CME⁷).

The main arguments in favour of these positions are addressed below.

2.1.1 Reduce Emissions

Both Pollution Probe⁸ and Anwaatin⁹ argue that a lower ETS will help to facilitate the efficient export of clean, low-carbon electricity from Ontario into neighbouring jurisdictions with comparatively higher-emissions electricity systems.

While reducing the ETS rate may have the positive effect of "replacing" generation from higher emission sources in neighbouring jurisdictions VECC notes that such an objective is not reflected in either the OEB' current statutory objectives as set out in Section 1(1) of the *OEB Act* or the Minister's current Mandate Letter to the OEB¹⁰. As a

³ Pollution Probe Submission, page 5

⁴ APPrO Submission, page 3

⁵ IESO Submission, page 18

⁶ Anwaatin Submission, page 2

⁷ CME Submission, page 12

⁸ Page 8

⁹ Page 5

¹⁰<https://www.oeb.ca/sites/default/files/mandate-letter-from-the-Minister-of-Energy-20211115-en.pdf>

result, VECC submits that consideration of impacts on emissions (particularly those outside of Ontario) should be, at best, a secondary consideration of Board. It should not be the primary (or one of the primary) considerations in setting the ETS rate.

2.1.2 Increase/Maintain Overall System Benefits

Virtually all of these parties (Pollution Probe¹¹, CME¹², Anwaatin¹³, IESO¹⁴ and APPrO¹⁵) referenced the overall value that the IESO has attributed to past exports¹⁶. Several parties (IESO¹⁷, CME¹⁸ and APPrO¹⁹) also referenced the small contribution that ETS revenues made to the overall value.

However, the critical issue that the Board needs to consider is not the total value achieved from exports or the amount contributed by export revenue but how the total value would change with a given increase/decrease in the ETS rate. In this regard, the evidence to-date consists of a study undertaken by CRA in 2012, the analysis prepared by Power Advisory for this proceeding and evidence given by the IESO in this proceeding. In VECC's view none of these compellingly demonstrate that a nominal increase in the ETS rate would have a material impact on overall system benefits.

As discussed in VECC's initial submission²⁰, the 2012 CRA Study assessed the impacts for three different years and concluded that a significant increase in the ETS rate (from zero to \$5.80/MWh) could have minimal or material impacts depending upon the year and related system conditions.

While the Power Advisory Study indicated²¹ that an increase in the ETS rate would negatively impact overall system benefits both SEC's²² and VECC's²³ submissions have

¹¹ Page 5 and 7

¹² Page 3

¹³ Page 5

¹⁴ Page 9

¹⁵ Pages 8-9

¹⁶ Exhibit I-8-3, page 8

¹⁷ Page 14

¹⁸ Page 11

¹⁹ Page 9

²⁰ Page 31

²¹ Power Advisory Report, pages 42-43

²² Pages 14-16. See also SEC's confidential filing

²³ Pages 40-44. See also VECC's confidential filing

identified issues with this analysis that suggest the impacts are overstated and could be materially less.

Finally, the evidence given by the IESO in this proceeding is not supported by any formal analysis. Indeed, the IESO acknowledged that no such analysis had been performed:

““At this time, the IESO has not undertaken a quantitative analysis to estimate the impact of a higher ETS rate on exports”.²⁴

Instead, the IESO offered its opinion that is, at best, directional in terms of the nature of the impacts²⁵. At the same time, the IESO indicated that there are times and system conditions when an increase in the ETS rate would have no impact on overall export volumes and no impact on overall system benefits/avoided costs²⁶.

However, when asked directly about the impact of an increase in the ETS rate, the IESO responded²⁷:

“So if the ETS was zero -- I think you have said there is no linear relationships with things. But just if the ETS was zero, would you anticipate that the balance in the TRCA would increase by at least as much as that 35-million-dollar revenue forecast that we have for ETS revenues?

MR. CHAPMAN: It's tricky to answer definitively because if the ETS was to drop to zero, we would collect more ICP on the lines -- the lines that are congested. So when the traders are competing, we would collect more ETS -- ICP revenues on those lines.

But not all lines are congested all of the time. So there will be some flows where we would collect less ETS revenue.

However, we will -- we would also -- it would provide some -- we would likely see over time more export volumes that would provide some operational benefits to

²⁴ Initial HON Submission (October 14, 2021), Attachment 3, page 13

²⁵ Initial HON Submission, Attachment 13, pages 12-14 and Presentation Day, pages 100 and 109

²⁶ Initial HON Submission (October 14, 2021), Attachment 3, page 12 (Wide Price Spread Scenario)

²⁷ Presentation Day, page 115

the IESO and we would see some of those costs that I mentioned earlier, the avoided costs would decrease -- increase. The benefits would increase, but we would see reduced costs.

So again, it is a bit hard to say definitively. I think actually to be honest, I think the balance in the TRCA would drop, but does that mean that ratepayers are worse off? I'm not sure that they would be worse off, because some of those avoided costs-benefits don't show up in the TRCA, right? They just -- they show up elsewhere in the system.

On balance, if the ETS went to zero, there would be an increase in the ETS and an increase in the avoided cost-benefits. In our opinion, that was pretty close to any change in the ETS revenue.” (Emphasis Added)

As noted in VECC’s initial submission²⁸, it may be reasonable (as a working assumption) to accept that an increase in the ETS will negatively impact overall system benefits. However, there is no evidence before the Board to support the contention that a nominal increase in the ETS would have a material impact on overall system benefits/avoided costs. Indeed, based on the above quote the overall impact could be minimal.

CME supports²⁹ a modest reduction to the ETS rate in order for the Board and stakeholders to test whether the amounts recovered through the ICP will outweigh those that would have been collected under a higher ETS rate, but were not. VECC has two concerns with this proposed “test”:

- First, when the test’s results are being assessed, they will represent the results for an historical period. As noted by CME elsewhere in its initial submission³⁰: “In essence, despite the fact that lowering the ETS rate over the previous ten years could have been economically advantageous to ratepayers, it does not necessarily mean it will be advantageous going forward.” As a result, the test

²⁸ Page 44

²⁹ Page 13

³⁰ Page 11

may provide little insight, at the time of its review, into what the impact of lower/higher ETS rate will be going forward.

- Second, such a test requires a comparison of actual results for historical period (i.e., ETS volumes and revenue, ICP revenues and system avoided costs) with what would have occurred if the ETS rate had been maintained at \$1.85/MWh. This is equivalent the type of analysis that Power Advisory attempted to perform. However, as evidenced by VECC's and SEC's initial submissions³¹ and Power Advisory's own admission³² this type of analysis is extremely complex.

Overall, it is not evident to VECC how useful a test, such as that suggested by CME, would be to OEB when setting future ETS rates in a future proceeding.

2.1.3 Operational/Reliability Benefits

A number of parties (Anwaatin³³, CME³⁴, Pollution Probe³⁵, IESO³⁶, and APPRO³⁷) also made reference to the IESO's claim the increases in the ETS rate would reduce operational flexibility and impair reliability.

While it is reasonable to accept the IESO's view that exports enhance operational flexibility, VECC notes that:

- i) The IESO has been able to reliably manage/operate the system with ETS rates in the range of \$1/MWh to \$2/MWh³⁸.
- ii) Concern about the past need to take significant control actions with respect to nuclear operations are related to the 2017-2018 period when demand was depressed due to the economic downturn at the time which gave rise to significant surpluses³⁹. Furthermore, even for that period, the

³¹ See earlier references regarding Power Advisory's analyses

³² Technical Conference, Day 2, pages 22-24

³³ Page 3

³⁴ Page 10

³⁵ Pages 5 and 8

³⁶ Pages 8-11

³⁷ Page 9

³⁸ Presentation Day, page 101

³⁹ Presentation Day, page 101

IESO cannot confirm that the need arose due to the ETS rate giving rise to uneconomic exports⁴⁰.

- iii) The IESO cannot pinpoint the level of ETS rate which would trigger the need for control actions. Rather the IESO only notes that “an increase in the ETS would increase the probability that we would have to take some of these types of control actions”⁴¹.

While the IESO may seek to minimize the level of risk associated with reliably operating the Ontario system, accepting a certain level of risk is inherent in the design and operation of Ontario’s electricity system. For example, decisions with respect to the level of generation resources required are made with a view to managing such risks not totally eliminating them⁴². Similarly, the level of redundancy built into the transmission system is done with a view to managing (based on the IESO’s N-1 planning criteria⁴³) the likelihood that outages on the system that will impact customer supply.

Finally, VECC notes that Anwaatin’s concerns⁴⁴ with respect to reliability are primarily associated with the transmission system, whereas the IESO’s concerns⁴⁵ with respect to the potential impacts of higher ETS rate on system reliability and operability are related to generation.

2.1.4 Consideration of Cost Allocation Study Results

In past decisions the Board has clearly indicated that the results of a cost allocation study should be one of the considerations in setting the ETS rate. While addressed in both the EB-2012-0031 and EB-2019-0082 Decisions, it is most evident from the EB-2012-0031 Decision which stated⁴⁶:

“The Board will require Hydro One to perform a cost allocation study to establish a cost basis for the ETS rate. Some parties have suggested that such a study

⁴⁰ Presentation Day, pages 100-101

⁴¹ Presentation Day, page 109

⁴² 2021 APO, page 42

⁴³ EB-2021-0110, Exhibit B-2-1, page 84

⁴⁴ Page 3

⁴⁵ Pages 10-11

⁴⁶ Page 9

would be prohibitively costly. However, the Board accepts the Elenchus testimony that a study could be properly scaled to address the magnitude of the issue and could be completed for a reasonable cost. The Board expects that this study will be completed in time for Hydro One's next cost of service transmission rate application. While Hydro One has the responsibility for completing this study, the Board expects that the IESO will assist Hydro One as required to fully address the ETS rate issue."

However, despite this, both Anwaatin and Pollution Probe have failed to incorporate any reference to or consideration of the Elenchus cost allocation study into their submissions.

In the case of the IESO, while the submission makes reference to the Elenchus cost allocation study, its recommendations⁴⁷ regarding the ETS rate do not reflect any consideration of the results:

"Considering the operational and economic risks associated with a higher ETS rate, along with lack of any corresponding benefit to Ontario consumers, it is the IESO's position that the ETS rate should be set at zero or no higher than its current level of \$1.85/MWh."

In VECC's view the submissions by these parties and the resulting recommendations do not reflect or give any weight to one of the key principles/considerations that the Board has identified as being relevant when setting the ETS rate.

2.1.5 No Need for OEB Regulation

In its submission APPrO states⁴⁸ that:

"APPrO's principal position is that the ETS rate be discontinued given the presence of the ICP charges in the market. Electricity exporters' use of the Ontario transmission system is subject to competition through the ICP mechanism sufficient to protect the public interest, and therefore the OEB should

⁴⁷ Page 13

⁴⁸ Page 3

refrain from establishing any rate for exports use of the transmission system pursuant to section 29(1) of the OEB Act.”

Further in its submission APPrO similarly argues⁴⁹ that:

“Because electricity exporters’ use of the Ontario transmission system is subject to competition through the ICP mechanism sufficient to protect the public interest, APPrO submits the OEB has a positive obligation to refrain from establishing any rate for exports use of the transmission system pursuant to section 29(1) of the OEB Act.”

In VECC’s view there are a number of flaws in APPrO’s argument:

- First, APPrO’s use⁵⁰ of references from the IESO that inter-tie trading is a competitive market place are misplaced. In these references it is clear the IESO is referring to the market for generation (i.e. the commodity) and not the market for transmission services.
- Second, by definition, competitive markets require both multiple buyers and multiple sellers. While this may be the case for generation it is not the case for transmission service. There may be multiple buyers seeking transmission service but in any given region of the province there is only one supplier of transmission services (typically Hydro One) and in the case of the interties they are all owned by Hydro One. In this regard, transmission service fails the first part of the NGEIR test referenced by APPrO⁵¹.
- Third, as explained in VECC’s initial submission⁵², the purpose of the “competition” through the ICP mechanism is not to provide compensation to the transmission owner for the use of assets but rather “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”⁵³.

⁴⁹ Page 10

⁵⁰ Page 7

⁵¹ Page 10

⁵² Pages 20-25

⁵³ Exhibit I, Tab 1, Schedule 34 b) (Staff 34 b))

- Fourth, APPrO claims⁵⁴ there is no “cost causation” by exporters in regard to the transmission system and therefore no costs for exporters to pay beyond those associated with the ICP. In its initial submission VECC addresses⁵⁵ the question/definition of cost causation and the need for a broader interpretation based on the “user pay” / “user benefit” principle. VECC also noted the more recent determinations by the OEB EB-2019-0082⁵⁶ that: “the OEB has determined that the use of shared network facilities by exporters needs to be considered in setting the ETS rates”. In addition to these submissions, VECC also notes Mr. Pattani’s submission⁵⁷ that under the Ontario Resources and Transmission Assessment Criteria (“ORTAC”):

“transmission planners *do not* and *cannot* defer the need for inter-area transmission within Ontario by reducing or eliminating the requirement to maintain capability to transfer power to export nodes. Indeed, as evidenced by the aforementioned planning reports, the need to retain capability to export power at the interties results in major internal transmission investments being needed many years earlier than they would have otherwise been needed if the export maintenance criteria were not to be satisfied”.

Clearly, even under APPrO’s narrow definition of cost causality, exporters are responsible for portion of the cost of the province’s transmission network.

- Fifth, APPrO’s argument⁵⁸ that comparison to other jurisdictions is not helpful in addressing this since none of them have the equivalent of ICP is incorrect. As noted by CRA⁵⁹, many of these jurisdictions employ LMP which serves as a substitute for ICP.

Based on the foregoing, VECC submits that the OEB should reject APPrO’s view that there is no need for a regulated ETS rate.

⁵⁴ Page 13

⁵⁵ Pages 12-17

⁵⁶ Page 180

⁵⁷ Pages 6-7

⁵⁸ Page 4

⁵⁹ Exhibit I, Tab 8, Schedule 2 (SEC 2 b)); Technical Conference, Day 1, pages 69-70 and Presentation Day, pages 68-69

2.2 Maintain the ETS Rate at \$1.85

One party (AMPCO⁶⁰) recommended that the ETS rate remain at \$1.85/MWh. In arriving at this recommendation AMPCO's submission states:

“In considering the above diverse opinions, AMPCO submits there does not appear to be one answer. The cost allocation view points to increasing the ETS rate, whereas the market view says reduce it. These are extreme views and neither provide sufficient rationale to move off the current ETS rate of \$1.85/MWh.”

As noted in virtually all of the submissions made by the various parties, there are a number of different considerations that need to be weighed/balanced in the Board's determination as to the appropriate ETS rate. As a result, given the diverse interests of the parties participating in the proceeding and the different weights each are likely to attach to the relevant considerations, it is not surprising that there are diverse opinions regarding the appropriate ETS rate. Furthermore, it is unlikely that a clear consensus could be achieved as to the appropriate weight to be attached to these considerations. As noted in the following exchange⁶¹ the ultimate balancing of these considerations lies with the Board:

“Did you look at all at any sort of sweet spot? You know, obviously as the regulator, we have to look at balancing all competing interests and so you have kind of shown us the bookends. Any thought?”

MR. LUSNEY: Excellent question. We did not. We stuck to kind of what our mandate was. We recognize that and I think you would have seen in the transcript we were asked similar questions by intervenors. But really we are trying to provide, you know, straightforward and transparent guidance for you, the Panel, to kind of understand the impacts.

MS. ANDERSON: The buck stops with us.”

⁶⁰ Page 5

⁶¹ Presentation Day, page 139

This view is echoed in Hydro One's submission where the company states⁶²:

“Hydro One defers ... to the OEB's expertise and responsibility for setting an ETS rate that best balances the various interests affected by the ETS rate”.

2.3 Increase the ETS Rate

A number of parties (Mr. Pattani⁶³, Energy Probe⁶⁴, LPMA⁶⁵, SEC⁶⁶ and OEB Staff⁶⁷) have made recommendations that would result in an increase in the ETS Rate in either 2023 or 2024. The recommendations as to the size of increase vary as do the recommendations as to the adjustments that should be made in subsequent years.

Most of these parties recommendations are the result of considering the results of the Elenchus cost allocation study and balancing these results with other considerations.

Mr. Pattani notes⁶⁸ that the results from Elenchus' cost allocation study using an 80% allocation of shared network costs to exporters (i.e., \$5.42/MWh) is the likely the most justifiable option from among the options tabled by Elenchus. However, he recommends the ETS rate be set at \$3.66/MWh based on the 50% allocation option in the Elenchus Report in order to provide for a transition to the higher rate. He also recommends⁶⁹ that the rate remain unchanged until the rate is reviewed again by the OEB.

OEB Staff similarly favours the results from Elenchus' 80% allocation option but calls for a slower transition (i.e., an initial increase to \$2.15/MW in 2024 followed by increases of roughly \$0.30/MWh/year until it reaches \$3.66/ MWh in 2029) based on concerns about the bill impact on exporters of higher annual increases⁷⁰.

⁶² Page 3

⁶³ Page 4

⁶⁴ Page 5

⁶⁵ Page 8

⁶⁶ Page 22

⁶⁷ Page 1

⁶⁸ Page 22

⁶⁹ Page 23

⁷⁰ Page 3

LPMA supports⁷¹ the OEB Staff's general approach but is of the view that the ETS rate derived using Hydro One' costs should not be adjusted to incorporate the revenue requirements of the other transmitters in the province which results in a "target" value of \$5.03/MWh (as opposed to \$5.42/MWh). Overall, LPMA's recommendation⁷² is:

"the ETS rate should be increased to \$2.50/MWh for 2023 and then increased by \$0.50/MWh in subsequent years. This would result in a \$5.00/MWh charge in 2028 which would likely be a rebasing year for HONI at which time a new ETS rate could be determined through the cost allocation methodology".

VECC has two concerns with OEB Staff's (and similarly LPMA's) approach. The first is that, in support of its proposal to phase-in the increase in ETS rates, Board Staff references⁷³ the OEB policy (per the Handbook to Utility Rate Applications) that a mitigation plan is required when the total bill impact is 10% or more for any customer class. Thus, in the case of distribution utility rates, it is the impact of the proposed distribution rate increase on a customer's total bill (including commodity costs, transmission costs and other regulatory charges) that is the used when calculating the need for a bill impact mitigation plan. However, the OEB Staff's assessment of the bill impacts for exporters focuses solely on the percentage increase in the ETS rate itself. An exporter's total cost (or bill) for an export transaction will include not only the cost for transmission service but also the commodity costs, congestion rents and other market costs such as uplift fees. As demonstrated in VECC's initial submission⁷⁴, the increase in the ETS rate would have to exceed \$3/MWh in order for the exporter's total bill impact to exceed the 10% threshold.

VECC's second concern is that the proposals put forward by OEB Staff and LPMA (as well as Mr. Pattani) do not account for the fact the Hydro One has proposed that its transmission system costs increase by 3% - 6% annually⁷⁵ over the period until its next

⁷¹ Page 8

⁷² Page 8

⁷³ Page 20

⁷⁴ Pages 48-49

⁷⁵ EB-2021-0110, Exhibit A, Tab 4, Schedule 2, page 5

rebasing. As result, the each of the proposals will result the future ETS rates that fall short of their intended target for the next rebasing.

Energy Probe proposes⁷⁶ that the ETS rate be increased from \$1.85 to \$2.00 based on the increase in the Hydro One Transmission Rate Base since the \$1.85 was established. Energy Probe states⁷⁷ that the \$2.00/MWh ETS rate represents a balance between the \$6.54/MWh rate indicated by the cost allocation study and the \$0/MWh rate that will maximize exports”.

It is unclear to VECC exactly what the basis was for the percentage increase used by Energy Probe to derive the \$2.00. However, VECC notes that for 2015 (the same year the \$1.85 was put in place) the approved⁷⁸ UTR for Network Service was \$3.78/kW and that as of 2022 the approved⁷⁹ UTR for Network Service is \$5.46/kW, representing a 44.4% increase. Applying this increase to the \$1.85 yields a value of \$2.67 which would have to be increased further for 2023. In VECC’s view this would be a more appropriate way to re-state the \$1.85 in order to account for cost increases since 2015.

2.4 Elenchus’ Cost Allocation Study

VECC notes that amongst those parties that commented specifically on the Elenchus cost allocation study there was a reasonable degree of consensus⁸⁰ that the Elenchus approach using with the allocation of shared Network costs based on the 80% factor was appropriate. With respect to the balance of the participating parties, AMPCO, Anwaatin and Pollution Probe did not make submissions regarding the cost allocation study while Hydro One Network did not express a preference for one of the three Elenchus options. Energy Probe expressed⁸¹ a preference for the allocation of shared Network costs based on 100%. On the other hand, both APPrO⁸² and the IESO⁸³ expressed more significant concerns regarding Elenchus’ cost allocation methodology.

⁷⁶ Page 5

⁷⁷ Page 2

⁷⁸ EB-2014-0357

⁷⁹ EB-2022-0084

⁸⁰ SEC (page 11), OEB Staff (page 5), LPMA (page 5), Pattani (page 22), and CME (page 9)

⁸¹ Page 4

⁸² Page 18

⁸³ Pages 13-15

In its submission the IESO sets out a number of reasons why a “solely cost based approach” would not be an optimal solution for setting the ETS rate. While most of the reasons dealt with the fact that there were other considerations that needed to be taken into account the IESO did express⁸⁴ concern that

“any cost-based analysis must address the lack of clear cost causality related to exports. HONI’s evidence in this proceeding is that it does not take exports into account when designing the transmission system. Likewise, the IESO plans the system, in accordance with established planning standards, to ensure export capability (if needed) is sufficient to maintain system reliability and operability. However, the needs and activities of competitive exporters (e.g., volume and profit opportunities) as a result of normal market conditions are not considered when planning the transmission system. Consequently, while exporters utilize transmission infrastructure they are not a primary driver of investment in the system”.

VECC notes that this issue is directly linked to how “cost causation” should be interpreted when performing a cost allocation study and is addressed fully in VECC’s initial submission⁸⁵. However, VECC would also draw the Board’s attention to Mr. Pattani’s submission⁸⁶ wherein he notes that based on the ORTAC “the need to retain capability to export power at the interties results in major internal transmission investments being needed many years earlier than they would have otherwise been needed if the export maintenance criteria were not to be satisfied” which indicates that there is a clear link between exports and cost causality even when it is defined in narrower terms.

The key changes to Elenchus’ cost allocation methodology advocated⁸⁷ by APPrO are:

- ICP revenues collected by the IESO for use of intertie capacity from both imports and exports should be accounted for in the cost-allocation model in the manner set

⁸⁴ Page 14

⁸⁵ Pages 12-17

⁸⁶ Pages 6-7

⁸⁷ Page 18

out in the updated response to JT-2.4 to ensure that intertie users are not paying twice for the same service (i.e. use of intertie capacity).

- Because exports receive a significantly lower level of service than other domestic customers, because of the significant other economic and operational benefits associated with exports, and because the network is not designed to accommodate exports, a maximum of 20% of shared network costs should be allocated to export customers in the cost allocation model. This approach ensures that exporters are not “free riders” but also ensures that the principles of cost causality, and similar cost for similar level of service are respected.

VECC has already made detailed submissions⁸⁸ rejecting the view that failure to account for ICP revenues in the cost allocation model results in exporters paying twice for transmission service and does not intend to repeat them here. However, in its submissions APPrO also cites⁸⁹ the NYISO OATT (Schedule H) where congestion payments are factored into the determination of the rate as a precedent for including ICP revenues in the cost allocation model. VECC has two observations regarding the use of the NYISO OATT as a precedent:

- First, the NYISO practice of including congestion rents in the determination of the export tariffs is an exception and not standard industry practice. The standard industry practice is to design the export rates such they equal the total annual transmission revenue requirement (ATTR) divided by the forecasted annual billing units (12 Coincident Peak (CP) or zonal 16 peak demand, or another basis)⁹⁰.
- Second, based on the description provided in the CRA Report and responses in Exhibit I, Tab 5, Schedules 35.5 and 35.6, for the NYISO transmission tariffs the revenues congestion payments made by exporters are not used solely to reduce the costs under pinning the export tariff (as done in the updated response to JT-2.4 referenced by APPrO). Rather the overall transmission revenue requirement used to derive the rates for both export and domestic customer is reduced by revenues

⁸⁸ Pages 20-26

⁸⁹ Pages 19-20

⁹⁰ CRA Report, page 4 and Exhibit I, Tab 1, Schedule 20 f) (Staff 20 f))

from financial transmission rights and congestion payments. The reduced revenue requirement is then divided by the total billing quantity for both export and domestic service such that the rates for the two services are comparable. As a result, the NYISO's practice is best represented by the original response to JT-2.4 which results in ETS rates very similar to those produced by the Elenchus study (e.g., \$4.93/MWh vs. \$5.03/MWh prior to adjustment for other transmitters' revenue requirements).

APPPrO's rationale for recommending a maximum of 20% of shared network costs to exports be allocated to exports in the cost allocation study mixes issues related to cost causality/user pay (such as the lower level of service received by exporters) with other considerations (such as operational and system benefits) that are generally considered to be matters of rate design. The distinction between the two (i.e., cost allocation vs. rate design) is described in the Hydro One Networks submission⁹¹ as follows:

"It is also important to recognize that there is a distinction between cost allocation and rate design. While cost allocation refers to the process of identifying and apportioning costs between classes based on cost causality principles, rate design refers to the process of setting rates that balance a myriad of factors, including cost causality".

The only reference to using a 20% factor for exports in a cost allocation study was in relation to Mr. Vellone's questioning⁹² of Mr. Blair regarding the AESO's approach to setting export tariffs. In this regard, VECC's initial submission⁹³ has addressed both the fact that the AESO's approach is the exception as opposed to the standard utility practice for setting export transmission service rates and the fact that the factor used by the AESO is really 25% (not 20%).

Overall, VECC submits that, based on its initial submission and the additional comments provided above, the Board should reject APPPrO's proposed adjustments to Elenchus' cost allocation study.

⁹¹ Page 6

⁹² Technical Conference, Day 2, pages 99-100

⁹³ Pages 18-19

2.5 Conclusions

Having reviewed the submissions made by other parties and based on the preceding comments VECC continues to be of the view that the recommendations set out in its initial submissions are appropriate and should be accepted by the OEB. Specifically, these recommendations are:

- Increase the ETS rate to \$3.00/MWh somewhere between 6-12 months after the Board issues its Decision (resulting in an ETS rate adjustment sometime mid to late 2023).
- Increase the ETS Rate on January 1 of each year during Hydro One Networks' CIR period (2024 to 2027) by the same RCI percentage that is used to adjust Hydro One's transmission revenue requirement. and
- Undertake a review of the ETS rate at the time of the next rebasing of Hydro One Networks' transmission revenue requirement (currently 2028 based on Hydro One Networks' proposed five year term in its current CIR Plan application).