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BY EMAIL

October 28, 2019

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Christine E. Long

Dear Ms. Long:

**Re: OEB Staff Interrogatories
Association of Major Power Consumers in Ontario (AMPCO)
Application to Review Amendments to the Market Rules Made by the
Independent Electricity System Operator (IESO)
Ontario Energy Board: File No.: EB-2019-0242**

Pursuant to Procedural Order No. 3, please find attached the interrogatories of OEB staff to the IESO in the above-referenced proceeding.

Yours truly,

Original Signed by

Michael Bell
Project Advisor, Application Policy and Climate Change

cc: All Parties in EB-2019-0242

ONTARIO ENERGY BOARD

OEB Staff Interrogatories to the IESO

Association of Major Power Consumers in Ontario

**Application to Review Amendments to the Market Rules Made by the
Independent Electricity System Operator**

EB-2019-0242

October 28, 2019

IESO-Staff-1

Ref: IESO Staff presentation to Demand Response Working Group (DRWG), March 1, 2018, Slides 10 – 14.

Reference: (FERC) Order No. 745 Demand Response Compensation in Organized Electricity Markets, March 15, 2011, paragraph 67, third sentence.

Preamble:

In the IESO Staff presentation to the DRWG on March 1, 2018 the referenced slides are entitled “Negawatts and Megawatts”. An example is provided demonstrating settlement outcomes for megawatts and “negawatts”. Slide 14 concludes that “the current practice of not providing a utilization payment is equal treatment for resources providing “negawatts” and megawatts”.

Questions:

- a) Does the IESO regard the “negawatts” and megawatts in the example as economically equivalent or not economically equivalent? Why or why not?
- b) If the IESO considers “negawatts” and megawatts to be economically equivalent, why does the IESO’s conclusion regarding utilization payments appear to contrast with the conclusion in FERC Order 745, that utilization payments should be paid to DR resources under certain conditions because “demand response...is a cost effective alternative to generation in the organized wholesale energy markets and payment of LMP represents the marginal value of a decrease in demand”.

IESO-Staff-2

Ref: IESO Presentation to the DRWG, September 4, 2019, page 9; IESO Presentation to the Technical Panel June 25, 2019, Page 38

Preamble:

In the above-referenced IESO presentation to the Demand Response Working Group the IESO states:

- *The IESO has no ability to confirm whether bids reflect real-time price sensitivity or the desire to avoid being “activated” in the market, and therefore no indication as to whether bids reflect costs.*
- *At the last stakeholder webinar (July 29), the IESO outlined some of the fundamental differences between HDR bids and physical dispatch resources*

- *IESO does not settle consumption against HDR bids; no real-time dispatch instructions to comply with as is the case with dispatchable loads*
- *The IESO has no visibility as to whether resources continue to consume if the price of electricity in real-time goes very high.*

This comment was made in the context of assessing whether HDR resources should be paid for out-of-market activations, and if so, whether prices bid would be an appropriate amount for such payments.

Questions:

- a) If the IESO has no ability to assess whether an HDR's Demand Response Energy Bid reflect costs, is it correct to say that HDR resources are economically dispatched in the RTEM?
- b) How would the IESO be able to compare generation offers to HDR bids in order to optimally dispatch the system given the statement above?
- c) Does the IESO have similar concerns about the Demand Response Energy Bids made by dispatchable loads with DRA capacity commitments? If not, why not?

IESO-Staff-3

Ref: Memorandum of Michael Lyle, Vice-President, Legal Resources and Corporate Governance; Chair, IESO Technical Panel to IESO Board of Directors, dated August 20, 2019

Preamble:

On page 3, paragraph 2 of the above noted Memorandum, Mr. Lyle states:

The IESO takes the position that the proposed Phase I market rules do not unjustly discriminate against DR resources. Phase I initiates a process that will allow more market participants to access a capacity auction, thereby increasing competition and providing the greatest value for ratepayers while meeting a growing reliability need.

Question:

Please explain how the IESO has come to the conclusion that the TCA Phase I market rules do not unjustly discriminate against DR resources.

IESO-Staff-4

Please provide the following data about the participation of various demand response provider categories in the Demand Response Auction and Real Time Energy Market

	Class A Participants	Class B Participants
HDR Participants	<ul style="list-style-type: none"> • Number of Participants • Total MW Capacity for this group • Average hourly consumption for both 2018-2019 Commitment Periods* • Average hourly consumption for High 5 Hours in 2018 	<ul style="list-style-type: none"> • Number of Participants • Total MW Capacity for this group • Average hourly consumption for both 2018-2019 Commitment Periods* • Average hourly consumption for High 5 Hours in 2018
Dispatchable Load Participants	Same Information as above	Same Information as above

* Average hourly consumption is to be defined as Total MWh consumed in all availability window hours for the 2018 Summer Commitment period and the 2018-2019 winter commitment period, divided by the total number of hours in those two commitment periods.

IESO-Staff-5

Ref: (FERC) Order No. 745 Demand Response Compensation in Organized Electricity Markets, March 15, 2011, paragraphs 24, 25, 28, 42, 43, 57, 60, 63, 103, 104, footnote 199, paragraphs, 105, 107, 108, footnote 208, paragraphs 110, 111, 114.

Reference Commissioner Moeller’s dissenting opinion page 4, paragraph 3; page 4, footnote 11; page 5, paragraph 2; page 5, footnote 12; page 7, paragraph 1; page 7, footnote 21, page 8, paragraph 1, page 8, footnote 26; page 8, footnote 27; page 8, footnote 29; page 9, paragraph 1; page 9, footnote 33; page 10, paragraph 1.

Preamble:

The paragraphs and footnotes listed in the reference above deal with how FERC’s decision relating to the payment of LMP for demand response activations interacts with the fact that many potential demand responders in the electricity markets under FERC’s jurisdiction pay state-level regulated retail rates for the energy they consume. This appears to be quite different as compared to the Ontario electricity market where potential demand responders typically pay either the market clearing price determined

in the Real Time Energy Market (for Class A loads), or the Hourly Ontario Energy Price (HOEP) plus a volumetric charge for Global Adjustment (for Class B loads).

The contrast between the U.S. discussion and the Ontario discussion suggests differences in how demand responders participate in the IESO-administered markets in Ontario as compared to similar demand responders in U.S. FERC-regulated electricity markets.

Questions:

- a) What differences between demand response participation in energy markets in the U.S. and in Ontario is the IESO aware of?
- b) Are any such differences relevant to the question of energy payments for the economic dispatch of demand response resources in Ontario? If so, why?

IESO-Staff-6

Ref: Transitional Capacity Auction, Phase I Design Document, June 5, 2019, p.11

Ref: Transitional Capacity Auction, Phase I Design Document, June 5, 2019, p.13

Preamble

In the TCA Phase 1 design document, the IESO noted “Phase I is intended to introduce minimal changes to the DRA.” The IESO’s intent for Phase 1 was therefore limited to broadening the scope of resources that are eligible to participate in the TCA to also include non-committed dispatchable generators (i.e., not contracted).

Questions:

- (a) Please clarify how much total generation would be eligible to participate (i.e., not only registered to date) in the December 2019 auction based on both capacity (MW) and the number of generators.
- (b) Please also provide a breakdown of that generation by the type of generation resource (e.g., natural gas, wind, etc.).
- (c) Please also indicate whether the IESO Board was informed of the amount of generation that would be eligible to participate in the December 2019 auction before a final decision was made on the market rule amendments. If not, why did IESO staff not believe it was an important consideration?

IESO-Staff-7

Ref: Presentation to IESO Board, Enhancing Ontario's Electricity Markets – MRP and TCA, June 12, 2019, p.22

Preamble:

In a presentation to the IESO Board, IESO staff indicated that, if there was a delay to the implementation of the TCA due to a challenge of the related market rule amendments at that OEB, another DRA may be held under the existing rules to meet short term capacity and reliability needs.

Questions:

- (a) Is it still the case that the IESO plans to proceed with a DRA if the TCA is delayed?
- (b) If not, please explain how the IESO would proceed to ensure any near term capacity and reliability needs are met.

IESO-Staff-8

Ref: Presentation to IESO Board - IESO Market Rule Amendments: Transitional Capacity Auction, August 28, 2019, p.6

Questions:

- (a) IESO staff notes at slide 6 in the presentation that "Access to energy payments for DR resources with a capacity obligation has not been material historically nor is it expected to be material under the TCA rules for the December 2019 auction". Please explain this statement, including the meanings of "access" and "material" in this context.

Further on slide 6, IESO staff also notes "Economic activations of DR resources have been very limited to date, and we do not expect the likelihood of economic activation to increase appreciably in 2020".

- (b) Please clarify the number of economic activations of DR resources in each year since the DRA was introduced in 2015 for: (1) HDR resources; and (2) Dispatchable load resources.
- (c) Please describe the IESO's expectations for 2020 in relation to the number of economic activations of DR resources under the current TCA design. Please

describe the anticipated market conditions (such as total load, MCP and/or HOEP) at times when activations, if any, would be expected.

- (d) Would IESO expect the frequency of activations to change if DR resources received an energy payment and, if so, how?

IESO-Staff-9

Ref: IESO Stakeholder Advisory Committee Meeting Notes – April 24, 2019, p.6

Ref: Transitional Capacity Auction, Phase I Design Document, June 5, 2019, p.5

Preamble:

The IESO decided to change the DRA into the TCA by making certain generation resources eligible to participate in Phase 1. At the April 24th SAC meeting, a committee member noted that DR resources do not receive energy payments when their capacity is delivered under the DRA and have been “consistently advised by the IESO since the inception of the DRA that this should be reflected in their auction bid prices.” That SAC member further noted that under the TCA design, dispatchable generators will receive energy payments and thus do not have to build this into their auction offer prices.

- (a) Please comment on the accuracy of the stakeholder’s statement that the IESO consistently advised DR resources to build in not receiving an energy payment into their auction offer prices.
- (b) If the stakeholder’s statement is accurate, please indicate if the IESO is continuing to advise DR resources to build in not receiving an energy payment into their auction offer prices. If not, why not?

IESO-Staff-10

Ref: Reasons of the IESO Board in respect of an amendment to the market rules, August 28, 2019, p.4

Ref: IESO stakeholder engagement web page – Energy Payments for Economic Activation of Demand Response Resources¹

Preamble:

The document containing the reasons of the IESO Board decision on the TCA market rule amendments discusses FERC’s decision to require energy payments to DR

¹ <http://www.ieso.ca/en/Sector-Participants/Engagement-Initiatives/Engagements/Energy-Payments-for-Economic-Activation-of-DR-Resources>

resources when they are dispatched subject to the condition that they meet a “net benefit requirement”. It also notes that it is not clear that the FERC analysis and conclusion is applicable to Ontario given the differences between the Ontario and U.S. electricity markets. As a result, further analysis was required and the IESO had committed to completing that analysis and engaging stakeholders.

The document further notes that AEMA and AMPCO believe it is appropriate to delay implementation of the auction until the analysis is completed. However, the IESO concluded that a delay was not warranted and would be detrimental to the market overall. According to the IESO website, the stakeholder engagement process discussed above that is analyzing the issue of energy payments to DR resources will be completed in June 2020, with a final IESO decision issued at that time.

Questions:

- (a) Please describe the IESO’s expectations of the detrimental impact to the Ontario electricity market overall in the event of a delay to the implementation of the TCA.
- (b) Please identify the “the differences between the Ontario and U.S. electricity markets” that were taken into consideration by the IESO Board.

IESO-Staff-11

Ref: Electricity Act, 1998

Please describe the main ways in which the TCA is consistent with the purposes of the *Electricity Act, 1998*.

IESO-Staff-12

Ref: Presentation to IESO Board - IESO Market Rule Amendments: TCA, August 28, 2019, p.6

Ref: FERC Order 745, p.3

Slide 6 of the presentation is entitled “IESO Position”. The final bullet on the slide states “the IESO has not taken a position as to whether these payments would result in a net benefit to ratepayers – further study is underway”. That further study is underway through the current IESO stakeholder engagement process that is expected to be completed by June 2020. It is OEB staff’s understanding from participating in that engagement process that it will culminate in the IESO’s decision and rationale on whether demand response resources will be compensated with energy payments for economic activations. FERC Order 745 discusses its “net benefits test”. Please explain

whether and how the IESO's approach to assessing the net benefits associated with DR resources differs from FERC's approach.

IESO-Staff-13

Ref: Agenda Item Summary for meeting of IESO Board of Directors, August 28, 2019, p.2

Page 2 of the Agenda lists the materials tabled before the Board including a document titled "IESO legal memo (privileged and confidential so will not be publicly available)"

Please provide details of the IESO legal memo including:

- The nature of the privilege being claimed, and the grounds for that claim. For example, if litigation privilege is being claimed, describe the nature of the anticipated litigation, whether it would be before the courts or the OEB, and the relationship between the contemplated litigation and the information contained in the memo
- If the claim is for solicitor – client privilege, please identify the client (i.e, whether it is the IESO Board of Directors or other entity), and explain the relationship between the author of the memo and the client
- The name and role of all persons to whom the memo was disclosed, whether intentionally or inadvertently
- The name and role of the author(s) of the memo
- The date that the memo was produced