

**ASSOCIATION OF MAJOR POWER
CONSUMERS IN ONTARIO (AMPCO)**

Response to SEC #1

Reference: Notice of Appeal, para. 24, 51.

Preamble:

AMPCO states that the Market Rules amendments at issue are “inimical” and “contrary” to many of the objectives of the [*Electricity Act*] including 1(f).

Question:

Please explain how AMPCO believes the Market Rules amendments at issue are inconsistent with the objective “to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service”.

Response:

AMPCO believes that more competition results in lower prices and higher levels of adequacy, reliability and quality of electricity service. AMPCO further believes that inviting generation resources which receive energy payments upon activation to compete against DR resources which do not will undermine competition for the provision of capacity resources, replacing one set of resources (DR resources) with another (generation resources).

AMPCO also believes that proceeding with a broadened capacity auction prior to addressing the availability of energy payments for DR resources is a step backwards in evolving towards a more competitive capacity auction process in particular, and a more competitive wholesale electricity market in general. Taking such a step creates unnecessary uncertainty and displacement of resources from their traditional market role, thus undermining confidence in the market and thus competition and better (i.e. lower) pricing in the longer term.

As stated by the IESO in evaluation of the success to date of its Demand Response Auction (DRA) program [as excerpted at AMPCO Application, page 5, paragraph 19, emphasis added];

As the electricity system moves toward competitive electricity auctions under IESO’s Market Renewal project, the participation of consumers providing demand

response will increase competition leading to overall lower prices for Ontario Consumers.

Similarly, in its ruling on Order 745, FERC noted [as excerpted at AMPCO Application, page 10, paragraph 38, emphasis added];

In Order No. 719, the Commission found that allowing demand response to bid into organized wholesale energy markets “expands the amount of resources available to the market, increases competition, helps reduce prices to consumers and enhances reliability”.

The overall objective of the IESO’s Market Renewal Program is to encourage and enhance competition [IESO Transitional Capacity Auction: Phase I Design Document, April 11 2019, page 1];

Creating a stable and efficient marketplace that produces value for consumers involves encouraging competition and innovation among suppliers – and is the catalyst behind initiatives to resolve long-standing market design issues.

In respect of capacity auctions in particular, the IESO has stated [IESO Incremental Capacity Auction High-Level Design: Executive Summary, March 2019, page 1]:

The [Incremental Capacity Auction] will help us to prepare for [a future period of capacity requirement] by allowing more resource types to compete to provide future capacity, enabling the IESO to flexibly meet the province’s adequacy needs.

The success of a capacity auction hinges on expanding participation in competition for the provision of capacity [IESO Incremental Capacity Auction High-Level Design: Executive Summary, March 2019, page 3]:

One of the advantages of the [Incremental Capacity Auction] is that all eligible sources of capacity – new and existing, on both the supply and demand sides – compete with each other, regardless of resource type. ...From the perspective of meeting adequacy needs, there is no functional difference between a megawatt of power from an electricity generating facility and a megawatt of reduced consumption from demand response.

As related at paragraphs 25 and 26 of AMPCO’s application, requiring DR resources to compete against generators without resolving the issue of fair and non-discriminatory compensation for DR resources for the value they provide to the energy market would undermine the current success of the Demand Response Auction and handicap DR resources from successfully competing within their own existing platform, because;

- a. generators will bid into capacity auctions taking into account their anticipated energy payments; and

- b. DR resources will have to compete against these bids without an equivalent energy payment stream, putting DR resources at a competitive disadvantage to generators in the expanded capacity market.

The IESO has recognized just such an issue in the context of compensating DR resources for “out of market” (i.e. test) activations. In a presentation provided on this issue to the Demand Response Working Group on June 19, 2019 [pages 36 *et seq.*], the IESO noted that “[o]bserved bid prices and stakeholder feedback indicate that activation costs (explicit and opportunity) can be significant for HDR [hourly demand response] resources”. The IESO further noted:

- When other resource types (dispatchable load, generator, import) are dispatched out-of-market they are eligible for some form of “make whole payment”
- *HDR resources do not receive a make-whole payment for out of market activations*
- *These costs may be reflected in their capacity offers potentially increasing the cost of the capacity*
- *In the context of the proposed capacity auctions, where HDR will be competing against other resource types, how these costs are recovered will potentially impact market efficiency*

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Response to SEC #2

Reference: Notice of Appeal, para. 36-45.

Preamble:

AMPCO relies on FERC Order No. 745.

Question:

Please provide details regarding any material differences in the market structure of the Ontario versus that which FERC regulates, and how transferable the analysis contained in FERC Order No. 745 is to the Ontario market.

Response:

Please see the response to Board Staff #2.

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Response to SEC #3

Preamble:

SEC wishes to better understand the impact on ratepayers of the Market Rule amendments at issue, and AMPCO's position that Demand Response providers should be eligible for energy payment.

Question:

Please provide AMPCO's views, including copies of any analysis that it has undertaken or is aware of, regarding impact on costs that will ultimately be borne by Ontario ratepayers of providing energy payments to Demand Response providers.

Response:

AMPCO has not undertaken any analysis on this issue.

In AMPCO's view which includes consideration of the perspectives of the majority of AMPCO's members who are not DR resource providers and for whom the lowest possible electricity costs are of paramount importance, the interests of Ontario consumers would be fully and appropriately protected by the development and application of an Ontario specific "net benefits test", as was required by FERC as a pre-condition to energy payments for DR resources. Please see AMPCO's response to OEB Staff interrogatory 2.

In AMPCO's view, this is the primary issue which the IESO's now launched [Affidavit of David Short dated October 25, 2019, paragraph 21-27 and Exhibit K] stakeholder engagement on energy payments for DR resources should be focussed on.

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Response to SEC #4

Reference: Market Surveillance Panel, *Monitoring Report on the IESO-Administered Electricity Markets* Report (March 2019) <https://www.oeb.ca/sites/default/files/msp-monitoring-report-20190429.pdf>.

Preamble:

In the Market Surveillance Panel's March 2019 Monitoring Report on the IESO-Administered Electricity Markets report, it made a number of critical comments in the IESO's Demand Response Auction in which the Transitional Capacity Auction is replacing.

Question:

Please explain what impact, if any, AMPCO believes that providing energy payments to Demand Response providers have on the criticisms made by the Market Surveillance Panel.

Response:

The March 2019 MSP Monitoring report contained the following summary of recent changes to the Demand Response Auction:

The IESO has made some necessary changes to its Demand Response (DR) auctions. It has reduced the minimum number of hours that DR participants can be activated to one hour from four. It also introduced a price trigger, allowing the IESO to issue an activation notice to DR participants when pre-dispatch prices move higher than \$200. Both of the changes are intended to increase the usage of Demand Response resources. Ratepayers will pay \$161 million to resources procured under the first four Demand Response auctions. The Panel continues to question the value of this program for ratepayers, given that none of the hourly demand response resources have been activated to provide DR and reduce their consumption.

AMPCO's Application regarding the Market Rule amendments does not relate to any of these changes, or to the overall value of a capacity auction to the Ontario market (though AMPCO continues to support such a capacity procurement mechanism, properly designed and implemented).

A net benefits test such as that required by FERC as a condition for energy payments to DR resources, properly designed and implemented for the Ontario market, would ensure that DR resources receive energy payments only when it is cost-effective from the market's perspective (i.e. the consumer's perspective) for that resource, inclusive of such energy payments, to be utilized. This means that the interests of consumers are best served by implementing energy payments because the utilization of the specific demand response resource in question is the most economically efficient action that can be taken to satisfy the need. Please see AMPCO's response to Board Staff Interrogatory 2.

In AMPCO's view, this is the primary issue which the IESO's now launched [Affidavit of David Short dated October 25, 2019, paragraph 21-27 and Exhibit K] stakeholder engagement on energy payments for DR resources should be focussed on.