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November 20, 2019

Delivered by Email, RESS & Courier

Ms. Christine Long, Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: Application for Review of an Amendment to the Independent Electricity System Operator Market Rules
Board File No. EB-2019-0242
Kingston CoGen Limited Partnership's Response to Interrogatories ("IRRs")

Pursuant to the Procedural Order No. 3 dated October 22, 2019, please find enclosed Kingston CoGen Limited Partnership's Response to Interrogatories in the above-captioned matter. Paper copies of this letter and the accompanying IRRs will be delivered to you by courier.

Should you have any questions or require further information in this regard, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by Gian Minichini

Gian Minichini

cc: John Vellone, BLG
Ewa Krajewska, BLG
John Windsor, Northland Power Inc.
Michael Lyle, IESO
Colin Anderson, AMPCO
Ian A. Mondrow, Gowling WLG

EB-2019-0242

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

AND IN THE MATTER OF an Application by the Association of Major Power Consumers in Ontario, pursuant to section 33 of the *Electricity Act, 1998, S*.O. 1998, c. 15, Sched. A and Rule 17 of the Ontario Energy Board *Rules of Practice and Procedure* for review of amendments to the Independent Electricity System Operator market rules related to the implementation of a Transitional Capacity Auction (MR- 00439-R00-R05).

AND IN THE MATTER OF a notice of motion by the Association of Major Power Consumers in Ontario, pursuant to section 33 of the *Electricity Act*, *1998*, S.O. 1998, c. 15, Sched. A and Rule 17 of the Ontario Energy Board *Rules of Practice and Procedure* to stay the operation of amendments to the Independent Electricity System Operator market rules pending determination of the Application.

KINGSTON COGEN LIMITED PARTNERSHIP

RESPONSE TO INTERROGATORIES

FROM

OEB STAFF, ASSOCIATION OF POWER PRODUCERS OF ONTARIO, AND SCHOOL ENERGY COALITION

November 20th, 2019

TABLE OF CONTENTS

Page

OEB STAFF

KCLP-Staff-1

INTERROGATORY

Ref: Evidence of Brian Rivard, p.34

Ref: IESO Evidence, p.17

Preamble:

In the evidence of Brian Rivard, it states:

> "When lower energy bid prices of DR resources cause the energy market price to fall …. the amount of net revenues earned by the committed generators falls in proportion to the price decrease … The decline in net revenue is fully offset by higher payments to the committed generators as per their contract terms or regulated rates. Non-DR consumers cover these higher payments through higher Global Adjustment charges. As a result, the benefit that non-DR consumers receive from the lower energy price is reduced by the amount A; they realize the smaller benefit represented by area B. Since the net benefit is smaller in Ontario, it is less likely that the net benefits test condition will be satisfied in Ontario."

Question:

> According to the IESO, the amount of generation coming off contract will be "significant" in 2023 at "approximately 4,000 MW" and the amount of off-contract generation will continue to grow thereafter. Under the scenario described above (i.e., lower energy bid prices of DR resources cause the energy market price to fall), would the net benefit get larger over time and would it become more likely that the net benefits test condition will be satisfied in Ontario (i.e., less affected by the GA)?

RESPONSE:

As contemplated under FERC Order 745, the net benefits test compares the "***benefit***" that non-DR consumers realize from the lower market price, against the "***cost***" they incur to compensate the DR-resources to curtail demand. When benefit exceeds cost, FERC Order 745 concludes that there is a net benefit to non-DR consumers and hence it is cost-effective to compensate DR resources to curtail demand.

In Ontario, the size of the benefit is lower because of the Global Adjustment. The ***benefit*** to non-DR consumers from the lower market price represents a ***loss*** to those generators that earn lower net revenues from the lower market price. The lost net revenues reduces the amount of fixed cost that the generators can recover through the IESO wholesale market. These include the capital costs the generators incurred to build generation capacity and the costs they must continue to incur to maintain generation capacity in the province. The province compensates these generators for the lost net revenues through payments made under IESO contracts or rate regulation. Ontario consumers make these payments through the Global Adjustment. As a result, the monthly benefits that non-DR consumers realize from lower market prices are offset by a higher monthly Global Adjustment charge. The IESO data provided to me indicates that, at least historically, the benefits to non-DR resources from the lower monthly market prices would have been more than offset by the higher monthly Global Adjustment charges had FERC Order 745 been implemented in Ontario.

As generators come off contract, the relationship between the monthly market prices and the Global Adjustment will change. However, I am unable to say exactly how this change will impact the net benefits test. As existing generation resources come off contract, if the IESO wishes to rely on that capacity in its system planning, the IESO will need to identify a mechanism to compensate those generators for their fixed operating costs required to maintain their facilities as a going concern. Historically, in Ontario this has been done using long-term contracts funded through the Global Adjustment mechanism. If the IESO elects to re-contract with existing or new generation resources to meet the forecasted capacity gap starting in 2023, then the chances that the net benefits test is passed in Ontario may in-fact get smaller in the future.

The IESO has already commenced a separate stakeholder engagement initiative entitled *Energy Payments for Economic Activation of Demand Response Resources*, and has engaged the Brattle Group to study the issue further.[1] The Brattle study is due to be published Q1 2020, and the IESO is targeting June 2020 for its rationale and final decision on energy payments for DR resources. This will be completed long before the forecasted 2023 capacity gap arises.

Finally, in my view, the FERC Order 745 net benefit test is problematic in that it is a static test that does not properly capture the longer-term costs and benefits to consumers. In particular, existing generators will still need to recover their fixed operating costs if they are going to maintain their generation capacity, and new generators investing in the province will need to cover their capital investment costs. Furthermore, if the IESO is to maintain reliability (i.e., satisfy its resource adequacy reliability requirement) it will need to compensate generators for these costs (the IESO cannot maintain reliability with only non-generation resources, such as Demand Response). To do so, the IESO will have to either re-contract with generators, provide generators with higher payments through the TCA or compensate generators through some other means. Ontario consumers will be responsible for covering these costs. In this way, the

[1] Affidavit of David Short at paras. 84-88.

payments Ontario consumers currently provide generators through the Global Adjustment will have to be made through some other means.

In my opinion, if the intent of the FERC Order 745 net benefits test is to compensate DR resources for curtailing demand, only when it is to the benefit of non-DR consumers, it should factor in the longer-term implications of ensuring a reliable amount of generation capacity in the province.

WITNESS: Brian Rivard

APPRO

KCLP-APPrO-1

INTERROGATORY

Ref: Affidavit of John Windsor

Ref: KCLP Submissions on Motion for Stay at paras. 43 and 46

Preamble:

In paragraph 43, subparagraph (b) of its Submissions on Motion for Stay, KCLP states:

> *"…Since implementation in 2016, the highest Hourly Ontario Energy Price ("HOEP") occurred on March 11th, 2017 and was $1,822.95/MWh. Since 2016, the HOEP exceeded $1,000/MWh in only 4 hours or roughly 0.01% of the hours, which further illustrates the unlikely risk of activation of DR resources that submit energy bids greater than $1,000/MWh."*

Later, in paragraph 46, KCLP states: "*…Since 2016, the highest HOEP has never exceeded $100/MWh."*

Question:

> Please explain any assumptions and relationships underlying KCLP's data and calculations, and to the extent that there is a discrepancy, please clarify.

RESPONSE:

The statement in paragraph 46 is an erratum. The statement should read: *"…Since 2016 the 87th highest HOEP in a given year has never exceeded $100/MWh."* The paragraph is making the point that if dispatchable loads were activated an average of 87 hours per year (i.e. less than 1% of the 8760 hours in a year), in those hours, the market price would have had to exceed the dispatchable loads bid prices. If the 87th highest HOEP never exceeded $100/MWh, then the bid prices must have been low relative to the $100/MWh benchmark. KCLP acknowledges that dispatchable loads are dispatched relative to the local nodal prices and not the HOEP, but use the HOEP as an indicative measure since we do not have enough information on the dispatchable loads that were dispatched and the relevant nodal price that affected the dispatch.

WITNESS: John Windsor

<u>KCLP-APPrO-2</u>

<u>INTERROGATORY</u>

<u>Ref: Affidavit of John Windsor at paras. 22-23</u>

<u>Ref: AMPCO Reply to Submissions on Motion for Stay, paras. 56(j), 58(g), and 74(b)</u>

<u>Preamble</u>:

At paragraphs 22-23 of its Affidavit, KCLP states (emphasis added):

> *"If the stay is granted, and the auction is delayed from its planned December 2019 auction date, then KCLP would lose out on the opportunity to compete for capacity for both the summer and winter periods. This would result in a lost opportunity cost for KCLP, <u>which could cost KCLP millions of dollars</u> and potentially force KCLP to shut down.*
>
> …
>
> *The impact would be similar to if the OEB grants the stay, as discussed above. Ultimately, if KCLP is unable to compete in a TCA, and otherwise secure an adequate revenue stream, this will place more pressure to shut down the facility permanently, as it <u>continues to lose millions of dollars annually</u> in the absence of a contract."*

At paragraph 56(j) of its Reply Submission on Motion for Stay, AMPCO, referring to KCLP, states:

> "*4 off-contract generators have registered to participate in the December 4th TCA. One of these has evidenced an expectation for 'millions of dollars' of benefit from that auction."*

And at paragraph 58(g), AMPCO states:

> "*The public interest and the interests of consumers are served by preserving, and not undermining, competition in the IAM. There are undisputed facts that…one of these generators anticipates the potential for 'millions of dollars' of benefits from successful participation in the December 4th TCA, obviously at the expense of its competitors in the auction."*

At paragraph 74(b), AMPCO reiterates:

> "*Facts indicating the possibility of irreparable harm are…the indication from the one of these generators who has offered evidence is that they stand to gain 'millions of dollars'*

> *in benefits in this auction, which by definition would be at the expense of their competitors"*

<u>Question</u>:

Please confirm whether KCLP stands to gain "millions of dollars" should it successfully clear the December 4, 2019 TCA.

<u>RESPONSE</u>:

This is not correct. KCLP requires the December TCA to maintain its KCLP generation facility as a going concern in the near term. Based on the most recent historical DR auction price, KCLP may only break-even in the near term. The true value of the KCLP capacity will likely only be realized when the forecasted capacity gap arises in 2023.

<u>WITNESS</u>: John Windsor

SEC

KCLP-SEC-1

INTERROGATORY

Ref: Evidence of Brian Rivard, paras. 66-71

Preamble:

Mr. Rivard's evidence is that it expects that the net benefits test would rarely, if every [*sic*], be satisfied in Ontario, based on recent historical information provided by the IESO.

Question:

Please provide Mr. Rivard's view on how often it expects the net benefits test would be satisfied when the IESO forecast capacity gap occurs in 2023.

RESPONSE:

I do not have the data and modeling tools to forecast how often the net benefits test would be satisfied in 2023. Please refer to KCLP's response to **KCLP-Staff-1** for my qualitative assessment of the likelihood the net benefits test would be satisfied in the future.

WITNESS: Brian Rivard

<u>KCLP-SEC-2</u>

<u>INTERROGATORY</u>

<u>Ref: Evidence of Brian Rivard, paras. 83-85</u>

<u>Question</u>:

Please provide the applicability of the critiques of FERC Order No. 745 referenced in the various papers to the Ontario-specific context.

<u>RESPONSE</u>:

The shortcomings of FERC Order No. 745 identified in the academic literature were general critiques of the application of the net benefits test and not specific to a particular jurisdiction. These critiques do also apply to the Ontario-specific context.

<u>WITNESS</u>: Brian Rivard