



June 21, 2018

IESO Stakeholder Engagement
Market Renewal Program

Submitted via email

Re: Load Pricing in Market Renewal

AMPCO is the voice of industrial power users in Ontario. Our mission is industrial electricity rates that are competitive, fair and efficient.

Attached are AMPCO's comments on the IESO's preliminary recommendation for Load Pricing, as part of the Market Renewal Program. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

[Original signed by]

Colin Anderson
President

Market Renewal - Load Pricing

Submissions of the Association of Major Power Consumers in Ontario (AMPCO)

INTRODUCTION

Ontario's electricity system is complex and always evolving. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line. We are the forum of choice for major power consumers who recognize that their business success depends on an affordable and reliable electricity system.

These submissions are in relation to Load Pricing, part of the IESO's Market Renewal Program. AMPCO's members are major power consumers, responsible for over 15 TWh of annual load in the province. A robust, efficient and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in this consultation.

AMPCO appreciates the opportunity to provide feedback and looks forward to continued dialogue.

AMPCO POSITION

AMPCO cannot currently support the IESO's preliminary recommendation of zonal pricing (with a nodal option) for non-dispatchable loads and nodal pricing for dispatchable loads. The current level of evidence that exists to support that preliminary recommendation is not sufficiently compelling to earn AMPCO's support.

Accordingly, and for the reasons set out below, at this time AMPCO feels that uniform pricing for loads should be implemented. As the Market Renewal Program progresses,

if additional evidence is brought forward that properly supports a zonal/nodal approach, AMPCO may review its current position.

JUSTIFICATION AND DISCUSSION

Throughout the Market Renewal discussions, AMPCO has consistently reiterated its need for competitive electricity pricing in Ontario. Countless times, AMPCO has said that, if Ontario perseveres and sees Market Renewal through to its conclusion - and that conclusion results in generally higher electricity prices - then Market Renewal will have been an epic failure. In AMPCO's submission, the IESO's load pricing preliminary recommendation pits the need for competitive pricing against the need for preservation of marginal incentives, and places price subordinate to "market efficiency". AMPCO cannot support this.

In eight of ten existing zones, zonal/nodal prices will be incrementally higher than prices would be under a uniform pricing regime. In an attempt to blunt the tip of this particular spear, the IESO has offered up disbursement of residuals to negatively impacted loads. Sadly, the IESO has not committed that this construct will be a permanent feature of the renewed market. Instead, stakeholders have been informed that it may be permanent, but it may also be temporary - which provides little reassurance. In the face of this uncertainty, AMPCO has little choice but to assume that disbursement of residuals - in whatever form is established - would be a temporary measure, and that loads would be left to cope with higher locational marginal prices with no transitional measures whatsoever.

While AMPCO continues to discuss this subject with the IESO, there is still an absence of quantifiable evidence to support zonal/nodal pricing. Some form of sensitivity analysis is still required which illustrates how susceptible the system (and pricing) is to volatility in the face of either supply/demand discontinuities or variability in transmission constraints. These types of analyses must be done before any real comfort could be achieved in the face of such a pricing change.

Initially, when the preliminary recommendation was communicated to stakeholders, much of the justification for migrating loads to a zonal/nodal construct was based on economic market theory - in essence, an efficient long-run marginal price signal is necessary so that future investment can be situated where the electricity market requires it. While the theory itself has some merit, one cannot consider it in isolation since the Ontario electricity market is not the only thing that is considered when investment decisions are made. It would be naïve to assume that industry places so much weight on one single element. There are numerous other factors that would be considered, some examples of which follow:

- Availability of natural resources (i.e. product) - Principle consideration in where many industrial facilities are located is their proximity to the natural resource that the facility will use. For example, typically pulp and paper facilities locate near trees, mines locate near mineral deposits, etc...
- Existing facility location - Many industrials, when considering investment, will consider where their existing facilities are already located, instead of constructing brand new facilities.
- Availability of labour - In addition to raw materials and electricity, a skilled labour force is absolutely essential to staff industrial sites. So notwithstanding low electricity prices, if an adequate workforce is not readily available in a given location, it is unlikely that industry will site there.
- Availability of transportation to and from site - Similar to labour, industrial sites must be accessible, both for initial construction and ongoing operations.

So notwithstanding how important electricity pricing is to existing industrial facilities, there are likely numerous other examples of factors that would be considered before electricity pricing when making new investment decisions, which challenges the need for an efficient long-run marginal price signal.

In the short run, it is true that better marginal price signals will drive behaviours that encourage non-dispatchable loads to become dispatchable (where that is possible). However, one must consider the incremental benefits associated with this and

compare those against the costs associated with less competitive prices. Another case where the practical should triumph over the theoretical.

In addition to the consideration of marginal price signals for investment, economic market theory instructs us that participants in a market that cannot earn sufficient rents will (ultimately) exit the market. If too much weighting is placed on the need for preservation of marginal incentives (versus the need for competitive electricity pricing) we are almost inviting this natural conclusion. AMPCO does not agree with Market Renewal design options that encourage this final consequence to be considered a viable option for industry. The IESO must carefully consider the paramountcy that it is establishing between pricing and theoretical market signals.

Markets exist beyond the electricity market. The IESO tends to think of “loads” as just that - exclusively consumers of electricity. They are only “loads” within the context of the electricity market. These entities are also “suppliers” in their own markets (automotive, mining, petrochemical, etc.). If they cannot earn a normal profit from their supply of product (i.e. if their input costs increase beyond what they can charge for their product), then they will be forced to exit that product market - also exiting the Ontario electricity market at the same time.

The IESO cannot consider the Ontario electricity market in isolation. An attempt to preserve electricity market marginal incentives may have unintended consequences on commodity or other markets - consequences that will create negative second order impacts for the very market whose marginal incentives it seeks to preserve.

Until such time as the IESO can produce quantifiable evidence that a nodal/zonal load pricing construct will not disadvantage industrial ratepayers, AMPCO cannot support it.