



October 18, 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)

AMPCO POSITION ON LOAD PRICING

AMPCO does not 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, AMPCO supports a uniform pricing regime for loads in the province.

JUSTIFICATION AND DISCUSSION

AMPCO's submissions of June 21st and August 31st of this year highlighted a number of concerns that AMPCO had at that time with the preliminary recommendation that has been put forward by the IESO.

Notwithstanding the numerous discussions that have taken place since those submissions, AMPCO's position remains unchanged. However, to be clear, AMPCO acknowledges the efforts put forward by the IESO to satisfy the concerns expressed and appreciates the IESO's hard work in stakeholdering this, and other, key issues in the Market Renewal Program.

At its core, the issue of load pricing essentially boils down to a binary choice. One either supports the recommendation advanced by the IESO, or supports a continuation of a uniform pricing regime¹. This decision is informed by consideration of the

¹ AMPCO understands the difference between the new uniform pricing regime and the one that exists today.

economic theory that has been used, almost exclusively, to justify the shift from uniform pricing to locational marginal pricing (LMP), and the general concept of risk and return.

Throughout the discussions on load pricing, the key driver in migrating loads to an LMP regime has been both the long run and short run marginal price signals that are generated as a result.

From a long run perspective, the theory indicates that investments on the load side will naturally be drawn to those LMP zones that have the lowest electricity prices. AMPCO acknowledges that this would be reasonable if all other things were held constant. While this latter portion of the phrase is easy to do in an academic setting, it is virtually impossible to accomplish in reality. In reality, there are several other factors that influence industrial investment decisions much more heavily than electricity pricing such as availability of natural resources, existing facility locations, availability of labour, existing transportation infrastructure, etc. AMPCO believes that long run price signal improvement, achieved pursuant to a move to an LMP construct, deserves almost no weighting when compared against all these other factors. Accordingly, while the economic theory is interesting, it is eclipsed by more practical imperatives.

Looking to the short run considerations, the theory suggests that a migration to LMP from uniform pricing will drive out efficiencies by making market participants pay the “real” cost to generate electricity in a localized zone as opposed to an average price across the entire province. Unlike the long run perspective, AMPCO does not necessarily disagree with this proposition. Rather, for AMPCO Members the question becomes one of benefit; is the benefit associated with increasing short run pricing efficiency more important than getting the most competitively priced electricity? In AMPCO’s submission, the answer to this question is “No”.

According to the IESO’s recommended approach, each of the ten zones that has prices which are higher than the uniform price will receive disbursements of a residual amount (which represents the difference between what generators are paid and what

consumers actually pay, due to congestion and losses) at a prescribed frequency². In the IESO's data supporting its recommendation, this generally applies to eight of the ten zones. The two zones that have LMP prices which are lower than the uniform price will pay that lower price, but the other eight zones will pay a slightly higher price than uniform, even after the disbursement of the residual. AMPCO recognizes that there are situations that can adjust this slightly (in either direction) but this conclusion is based on the general case. In summary - in eight of ten zones, the uniform price will generally be slightly lower than the LMP price.

For AMPCO Members, this general case is critical. It gives rise to the overall benefit question set out above, and for the majority of Members, this slight reduction in price is more tangible than the theoretical improvement in short run pricing efficiency. AMPCO Members compete in numerous markets against others who pay less for their delivered electricity. It is difficult to knowingly agree to pay a slightly higher price for reasons of economic efficiency that don't appear to result in meaningful benefits to those Members.

Finally, related to the benefits question associated with short run pricing efficiency is the concept of risk and return. The IESO has provided sensitivity analyses that are based on historical years (2014-2017). AMPCO understands why this approach is being used, but also acknowledges that there is some degree of risk that circumstances could conspire to prevent things in the future from unfolding as predicted using the historical IESO analysis.

This risk is more keenly felt in an LMP world than in a uniform pricing world, simply due to the lower levels of inertia that exist in a small zone versus the entire province. Simply put - if volatility occurs, it could cut deeper in LMP than in uniform pricing. In AMPCO's submission, there is no corresponding return to mitigate this increased risk.

² Notwithstanding that AMPCO does not support LMP for loads, it maintains that if this approach was adopted this frequency should be as often as possible, since consumers need to know their costs immediately, for operational and reporting reasons.

Much of what is discussed in this submission is more fully developed in AMPCO's previous June 21st and August 31st submissions, both of which currently reside on the IESO's SSM webpage.

<http://www.ieso.ca/en/sector-participants/market-renewal/market-renewal-single-schedule-market>

AMPCO appreciates the opportunity to provide this feedback.