



November 22, 2018

IESO Stakeholder Engagement
Market Renewal Program

Submitted via email

Re: Single Schedule Market - High Level Design Comments

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

Attached are AMPCO's comments on the IESO's High Level Design Document for the Single Schedule Market, as part of the overall Market Renewal Program. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

[Original signed by]

Colin Anderson
President

Market Renewal - High Level Design of the Single Schedule Market

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.

These submissions are in relation to the High Level Design (HLD) document created by the IESO as part of its Single Schedule Market (SSM) project, part of the overall Market Renewal Program. AMPCO's members are major power consumers, responsible for over 15 TWh of annual load in the province. A reliable and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in this consultation.

In general, this submission will focus on only those elements where AMPCO has material comments. AMPCO's silence on any other issue should be interpreted as taking no position.

AMPCO commends the IESO for producing a HLD document that accurately (but relatively concisely) summarizes the numerous discussions that underpin the SSM - not an easy task. AMPCO appreciates the opportunity to provide feedback and looks forward to continued dialogue.

PRICE FORMATION

In regards to Constraint Violations and their potential impact on pricing, while AMPCO supports the preliminary decisions of the IESO, it feels the need to highlight the criticality of this issue within the context of the upcoming Detailed Design considerations. In general, penalty prices must be high enough to resolve the violation

via dispatch of appropriate resources, but not so high as to be punitive, creating prices that are well in excess of what the market is willing to pay to resolve a given constraint. The discussions in Detailed Design will be critical in landing on appropriate values.

Further, AMPCO generally supports the use of graduated pricing under constraint violations, as set out in the IESO's High Level Design (HLD) Document.

MARKET POWER MITIGATION

In general, AMPCO is supportive of the preliminary recommendations advanced by the IESO in the area of Market Power Mitigation. However, a few clarifying comments are required.

- Reference Prices - Given the criticality of these to the success of the *ex-ante* methodology being recommended, the IESO may want to consider involving some third party expertise in both the determination of appropriate costs as well as a policy that spot audits will be performed, going forward.
- Dispatchable Loads - The IESO has indicated that, within the context of uneconomic production, dispatchable loads may be evaluated. While AMPCO understands this, we feel the need to provide some additional context in this area.

Ontario industry exists to produce, not to participate in the electricity markets. Whether that production is steel or automobiles or paper is irrelevant - the common thread in the conversation is that these entities do not exist exclusively to produce electricity, nor is their primary business function participation in electricity markets. Any decisions taken by these entities that result in their production being reduced are taken because it is no longer economic to produce due to the high price of one of their input commodities - electrical energy. So, notwithstanding the current participation of load customers in electricity markets, if electricity was perpetually inexpensive,

load customers would simply go about their business producing whatever product it is that they produce - without a second thought for the price of electricity. As a general rule, industrials would rather produce than curtail, and in producing, contribute to the provincial economy. AMPCO seeks a world where electricity pricing facilitates that production (and the economic benefit that comes with it), rather than discourages it.

Dispatchable loads can and will legitimately change offers from Day-Ahead to Real-Time because of the change in economic risk associated with the two different time horizons. Offers will be made into the Day-Ahead Market (DAM) as part of industry's ongoing planning activities - with the results of those activities informing production schedules for subsequent days. Once that production is proceeding in real-time, decisions on whether to dispatch down or off may have very different economic consequences than they do during the planning phase. This change in risk may necessitate a change in offer amounts and should not be misinterpreted as a load engaging in uneconomic production. This subject can be further explored during the Detailed Design phase.

LOAD PRICING

Not surprisingly, this subject is likely the most critical area of the SSM HLD for major industrial customers. To date, AMPCO has made formal submissions to the IESO on Load Pricing on three separate occasions:

- June 21, 2018
- August 31, 2018
- October 18, 2018

In each of these submissions (all of which are posted on the IESO website), AMPCO indicated that it did not support the IESO's preliminary recommendation of zonal pricing (with a nodal option) for non-dispatchable loads (NDL) and nodal pricing for dispatchable loads (DL). In each submission AMPCO's opinion was that the current

level of evidence that existed to support the preliminary recommendation was not sufficiently compelling to earn AMPCO's support. This has not changed.

Accordingly, AMPCO supports a uniform pricing regime for all loads in the province (DL + NDL). If desired, the IESO could implement a voluntary opt-in program where a given load could elect to be priced on a nodal basis, for a given period of time.

Much of the rationale behind AMPCO's position has already been set out in its three previous submissions, and we do not intend to repeat them here. In summary, much of AMPCO's apprehension is rooted in 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. For example, actual LMP prices going forward will not be the same as the shadow prices that were used in the historical analysis. In a future market, bid strategies used by generators could easily be different than they were when the historical information was compiled, making actual LMP prices quite different than historical estimates.

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.

Notwithstanding its uniform pricing preference, AMPCO understands that residuals (as described in the HLD document) will still exist since the IESO will still collect the same total amount from load customers under uniform pricing than it would have in an LMP or zonal regime. Further, AMPCO understands that a residual amount will still accrue that equals the difference between electricity costs paid by consumers vs. amounts paid to suppliers. AMPCO expects this residual to be returned to loads in an hourly load-weighted approach.

GLOBAL ADJUSTMENT

While not specifically part of the HLD document for SSM, AMPCO wishes to formally request the assessment that was referenced in an IESO Action from the July 18/19, 2018 stakeholder sessions on SSM. That Action was to provide an assessment of the interaction between SSM and Locational Marginal Pricing on Global Adjustment. This assessment would be very helpful in considering the SSM construct.

DEMAND RESPONSE

Similar to above, while this is not specifically part of the HLD document for SSM, AMPCO wishes to formally request that the IESO include a Demand Response mechanism intended to provide loads the same opportunity to participate in the renewed market design.

Notwithstanding AMPCO's comments above on general drivers for demand response, it is unlikely that electricity rates will drop to the level where it is universally unnecessary for loads to monitor the economic impact of electricity prices. Accordingly, it would be wrong to exclude a design feature that has been extensively stakeholdered in the U.S. and determined to be a critical market mechanism that increases competition, reduces the need for market mitigation, lowers emissions, and lowers cost for all rate payers. This may be more relevant to discussions on the Day-Ahead Market, but AMPCO wanted to raise it now to ensure that it is adequately addressed.