

Demand Response Working Group

Comments on the HDR Out-of-Market Activation Payments proposal by the IESO

Market Surveillance Panel

August 8, 2019

On July 29, 2019, the IESO presented its proposal to provide payments for out-of-market actions to Hourly Demand Response (HDR) resources. After reviewing the material and participating in the webinar, the Market Surveillance Panel (“Panel”) appreciates the opportunity to submit comments on the proposal. The Panel recognizes that the overall cost to the wholesale market of this proposal is relatively small. Nonetheless, any changes to the wholesale market and the manner in which resources participate in it should result in improved economic efficiency.

Before addressing the proposals specifically under consideration, the Panel wishes to address the statement at the beginning of the IESO presentation materials for these proposals that “HDR is intended to meet those very rare days when energy is needed to help meet Ontario’s system needs.” The Panel assumes this statement was made in error since it is clearly not accurate. HDR resources have been included in the Demand Response (DR) auction since it was first introduced purportedly to provide new capacity that would “compete with traditional sources of supply” and they have received nearly \$117 million in payments for undertaking to be available to balance supply and demand in the IESO-administered market when called upon. It is true that the rules developed by the IESO for activations are such that the likelihood of activation for HDR resources was virtually zero. But, as the Panel observed in its May 2017 report, that was at odds with the announced purpose of the program. In what appears to be a recognition of this disparity, the IESO has recently taken steps it says will “improve utilization of HDR resources.” It appears to the Panel that the introductory statement in the presentation materials referred to above may have been intended to apply only to HDR’s inclusion in the EOSCA lists, which occurred in 2018. However, it would be helpful if the IESO could clarify its position in this regard.

Payments for Testing

In the Panel’s opinion, making an additional out-of-market payment to HDR resources for testing does not improve economic efficiency. The payment results in a subsidy to HDR resources that is not available to other DR resources. As such, the Panel submits that having the HDR proponents include these costs in their auction bids is the most effective means to reflect the true cost of this obligation.

Moreover, the \$250/MWh payment being proposed for test activations is largely arbitrary. It comes from a former Ontario Power Authority (OPA) program that is years out of date and may have no relationship to the actual cost to HDR participants of responding to test activations. HDR resources undoubtedly have different costs as it relates to testing requirements, with some being higher and some lower. They may have also reduced the cost of responding to test activations since the DR programs were first put in place. Thus, a flat \$250/MWh payment either acts as a subsidy to some resources or is insufficient to materially change bids of those HDR resources with high testing costs – only in rare

circumstances will it align with actual costs. Ultimately, while the \$250/MWh figure is easy for the IESO to implement, it's not clear that it's a reasonable amount based on actual costs.

Emergency activations

The IESO proposal to rely on bids made into the DR program to compensate for emergency activations will, apart from other concerns, reduce any incentive for HDR resources to lower bids from their current level of \$1,999/MWh.

The justification for paying HDR resources their bid price of \$1,999/MWh for emergency activations assumes that such bids bear some relationship to costs. In fact these high bids are at the maximum level allowed and appear designed to avoid DR activations under the current rules or at least to receive the maximum payments if activation should ever occur. It is very unlikely that they ever reflect costs. In the Panel's opinion a better approach would see HDR resources submit their actual costs to the IESO after the emergency event, as is done for IESO guarantee programs (such as GCG). Given the rare nature of these events – with just four notices in the last five years and no activations – the Panel does not believe this would create an undue burden.