

Demand Response Working Group

August 2019: Response to Stakeholder Feedback on Out of Market Activation Payments – HDR Proposal

Following the July 29, 2019 stakeholder webinar on the proposal to provide payments to compensate hourly demand response (HDR) when activated out-of-market, the IESO invited stakeholders to provide comments and feedback on the proposal. The IESO received feedback from:

Rodan Energy Solutions
Advanced Energy Management Alliance
Market Surveillance Panel

This feedback has been posted on the IESO [DRWG webpage](#).

Note on Feedback Summary

The IESO appreciates the feedback received from stakeholders on the Out of Market Activation Payments – HDR Proposal. This stakeholder feedback, along with the comments provided at the stakeholder engagement sessions, is important to the collaborative approach the IESO has committed to. All feedback received has been noted and will be considered as the work of the DRWG moves forward. Below, the IESO has provided a summary table which outlines responses in respect of specific feedback or questions for which an IESO response is required at this time.

Stakeholder comments and IESO responses

The IESO has proposed the following payment approach for compensating HDR for Out of Market activations:

1. Capacity Based test activations – payments based on fixed payment of \$250/MWh curtailed
2. Emergency Operating State Control Actions Activations – payments based on a participant's (Bid-HOEP) x hours of curtailment

Design Element / Issue	Stakeholder	Summary of Feedback	IESO Response
Out of Market Activation Payments – HDR Proposal	Rodan Energy Solutions	<p>Rodan supports the proposed (IESO) method to compensate HDR resources when they are activated out of market for Emergency Operating State Control Action activations. Paying resources “as-bid” reflects the cost for delivery of Demand Response.</p> <p>However, Rodan does not agree that the payment for test activations should be different since they both will occur out of merit and participant costs would be similar. The IESO recognizes that the proposed \$250/MWh will probably not cover participant curtailment costs. The IESO also indicated that the basis for the \$250 was the \$200 from CBDR with inflation, and that CBDR is not a similar program. Therefore, there really is no basis for the \$250. Unlike generators who are compensated for incremental costs incurred for testing, loads will incur losses. Trying to accurately value these losses will be an extremely difficult exercise, so in lieu of this, in order to reduce the impact on the market, and loads during testing we propose that loads be paid \$250/MWh, but be permitted to schedule their own tests, within reasonable agreed upon parameters.</p>	Thank you for your feedback. The IESO has taken these comments into account and will present a proposal at the next DRWG scheduled for September 4, 2019. Materials can be found here once posted.
	AEMA	AEMA members fully support the IESO staff	Thank you for your feedback. The IESO

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		<p>proposal to compensate HDR resources when they are activated out of market – capacity based test activations and Emergency Operating State Control Action activations.</p> <p>However, AEMA do not agree that the payment for these two activations should be different since they both will occur out of merit and therefore costs would be similar, theoretically speaking.</p> <p>The IESO recognizes that the proposed \$250/MWh will probably not cover participant curtailment costs. The IESO also indicated that the basis for the \$250 was the \$200 from CBDR with inflation, and that CBDR is not a similar program. Therefore, there really is no basis for the \$250. Unlike generators who are compensated for incremental costs incurred for testing, loads will incur losses. Trying to accurately value these losses will be an extremely difficult exercise, so in lieu of this, in order to reduce the impact on the market, and loads during testing we propose that loads be paid \$250/MWh, but be permitted to schedule their own tests, within reasonable agreed upon parameters. AMEA members have long advocated for the ability to schedule capacity tests similar to other jurisdictions/markets.</p>	<p>has taken these comments into account and will present a proposal at the next DRWG scheduled for September 4, 2019. Materials can be found here once posted.</p>

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	Market Surveillance Panel	<p>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.” needs.” 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.</p> <p>Payments for Testing:</p> <p>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 and has 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</p>	<p>Thank you for your feedback. The IESO has taken these comments into account and will present a proposal at the next DRWG scheduled for September 4, 2019. Materials can be found here once posted.</p> <p>Regarding the following statement in the July 29 presentation materials (available on the DRWG website here): “HDR is intended to meet those very rare days when energy is needed to help meet Ontario’s system needs” The point the IESO would like to make here is that the bid reflects HDRs desire and position as a pre-emergency capacity resource; that is, reluctant to be activated regularly and only just ahead of the IESO having to take out of market actions.</p>

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		<p>requirements, with some being higher and some lower. 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.</p> <p>Emergency Activations:</p> <p>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.</p> <p>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</p>	

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		<p>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.</p>	