



Market Rule Amendment Submission

This form is used to request an amendment to, or clarification of, the Market Rules. Please complete the first four parts of this form and submit the completed form by email to the following:

Email Address: Rule.Amendments@ieso.ca
Attention: Market Rules Group
Subject: Market Rule Amendment Submission

All information submitted in this process will be used by the IESO solely in support of its obligations under the Electricity Act, 1998, the Ontario Energy Board Act, 1998, the Market Rules and associated policies, standards and procedures and its licence. All submitted information will be assigned the confidentiality classification of "Public" upon receipt. You should be aware that the IESO will publish this amendment submission if the Technical Panel determines it warrants consideration and may invite public comment.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the Market Rules.

PART 1 – SUBMITTER’S INFORMATION

Please enter contact information in full.
Name: IESO Staff
(if applicable) Market Participant / Metering Service Provider No.1: N/A
Market Participant Class: N/A
Telephone: 905-403-6983 Fax: N/A
E-mail Address: Rule.amendments@ieso.ca

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Demand Response
Title: Demand Response Auction
Nature of Request (please indicate with x)
[X] Alteration [] Deletion [X] Addition [] Clarification
Chapter: Various Appendix: Sections:
Sub-sections proposed for amending/clarifying:

1 This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 3 – DESCRIPTION OF THE ISSUE

Provide a brief description of the issue and reason for the proposed amendment. If possible, provide a qualitative and quantitative assessment of the impacts of the issue on you and the *IESO-administered markets*. Include the Chapter and Section number of the relevant *market rules*.

Summary

The IESO proposes to amend the market rules in order to implement a Demand Response (DR) Auction mechanism that will replace the former Ontario Power Authority’s expiring DR contracts and allow for future competitive procurement and development of DR in Ontario.

Specifically, this amendment will address DR Auction:

- Eligibility and registration;
- Parameters;
- Performance obligations; and
- Settlements.

This proposal is based on the DR Auction stakeholder engagement.

Further information on the DR Auction stakeholder engagement can be found on the IESO’s website at:

<http://www.ieso.ca/Pages/Participate/Stakeholder-Engagement/Demand-Response-Auction.aspx>

Background

Ontario’s 2013 Long-Term Energy Plan¹ (LTEP) established a target “to use Demand Response to meet 10% of peak demand by 2025.” To encourage development of demand response in Ontario, the LTEP also signaled that the responsibility for existing and new DR initiatives be transferred to the IESO. This has charged the new IESO with evolving existing programs and introducing new initiatives to encourage further development of DR in Ontario that will enable providers to operate on the grid in a manner comparable to generation resources. A DR Auction will introduce a competitive process for demand side resources as the IESO continues to examine the potential benefits and development of a capacity auction, where generation resources and demand resources could compete to address capacity needs.

The IESO’s goal for DR is to achieve greater value and economic use through improved integration of existing DR contracts in the IESO-administered energy market and dispatch process, and over the longer term through the expansion of DR market participant categories. As part of this effort, the IESO is developing the DR Auction mechanism for Ontario that will replace expiring DR contracts as well as identify future needs and opportunities for DR. A DR Auction in Ontario will:

- Provide a competitive platform that will allow for the selection of DR resources at the lowest cost while allowing for the entry of new cost-competitive providers;

¹ [Ministry of Energy - Long-Term Energy Plan 2013](#)

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- Provide the IESO flexibility to respond to changing Ontario system conditions and needs; and
- Provide a stable transition that offers a learning opportunity for DR providers to be able to successfully compete in a full capacity auction.

In consultation with stakeholders, the IESO developed, and is in the process of finalizing, the DR Auction Market Design. The IESO will also initiate further discussion regarding the detailed elements of the DR Auction design and implementation.

Highlights of the proposed rule amendments to implement a DR Auction in Ontario include, but are not limited to, the following:

Eligibility and Registration:

DR providers will be required to:

- Become authorized as an IESO market participant specific to the DR Auction; and
- Submit data that will be used in the IESO's 'Qualified Capacity' calculation to determine the amount of capacity that can be offered by a participant in the auction. This value will be based on the capability of the resource providing DR to reduce consumption over the peak periods.

Upon clearing the DR Auction, a participant will be required to register their DR resources.

DR Auction Parameters:

The market rule amendment will cover design elements and auction mechanics designed in coordination with stakeholders and will include elements of the following:

- Length of forward and commitment periods;
- Demand curve;
- Target capacity requirement;
- Reference price and maximum auction clearing price;
- Minimum/maximum cleared capacity limits; and
- Auction mechanics.

DR Auction Performance Obligations:

DR resources with a DR Auction obligation will be required to participate in the energy market over the availability window with must-bid requirements in both the Day-Ahead Commitment Process and real-time energy market. Compliance with must-bid requirements will be measured monthly.

DR providers will be subject to non-performance penalties and set-offs measuring compliance with obligations related to:

- Availability;
- Dispatch; and
- Administration.

Penalties and set-offs will claw back a DR providers availability payment and/or impose an IESO

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determined penalty that may exceed the availability payment. Participants may be subject to penalties and sanctions determined by the IESO’s Monitoring Assessment and Compliance Division (MACD). The penalties and set-offs will be dependent upon the type of non-compliance.

DR Auction Settlements:

The market rule amendments will include settlement and cost recovery processes related to the DR Auction to allow for the recovery of costs through a monthly uplift and the distribution of monthly availability payments to DR providers. In addition, DR providers will be required to submit a deposit to offer into a DR Auction and, upon successful participation, will be required to post prudential support.

Definitions:

New definitions will be required for DR Auction operation, registration and settlement.

PART 4 – PROPOSAL (BY SUBMITTER)

Provide your proposed amendment. If possible, provide suggested wording of proposed amendment.

It is proposed to amend the market rules to implement a DR Auction that will replace the former Ontario Power Authority’s expiring DR contracts and allow for future competitive procurement and development of DR in Ontario.

PART 5 – FOR IESO USE ONLY

Technical Panel Decision on Rule Amendment Submission: Warrants Consideration

MR Number: MR-00416

Date Submitted to *Technical Panel*: February 17, 2015

Accepted by *Technical Panel* as: (please indicate with x) Date:

General Urgent Minor February 24, 2015

Criteria for Acceptance: The amendment submission identifies a means to better enable the market to satisfy the market design principle of efficiency.

Priority: Regular

Criteria for Assigning Priority: A demand response auction is expected to reduce the cost of demand resources in Ontario and provide a stable transition to a competitive capacity auction in the future.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

Technical Panel Minutes Reference: IESOTP 288-1

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Technical Panel Comments: _____