



Memo to: IMO  
From: Jack Gibbons  
Re: Economic Demand Response Pilot Programme  
Date: November 17, 2003

The Ontario Clean Air Alliance (OCAA) strongly supports the aggressive promotion of economic demand response by the IMO.

Paying customers to curtail their load on peak demand days can provide the following benefits to Ontario:

1. A dramatic reduction in the market clearing price for electricity and hence the electricity bills of consumers and the Government of Ontario. For example, according to the National Economic Research Associates, a 2 to 5% reduction in demand on peak days could reduce prices by 50% or more. [Michael Rosenzweig et al., "Market Power and Demand Responsiveness: Letting Customers Protect Themselves", *Electricity Journal*, May, 2003].
2. Reduced risk of blackouts and brownouts.
3. Reduced need for new generation and transmission infrastructure.

The *New England Demand Response Initiative* is proposing that the New England ISO pay customers \$500 per Mwh (US\$) or more to curtail their consumption during peak demand periods. [New England Demand Response Initiative, *Dimensions of Demand Response: Capturing Customer Based Resources in New England's Power System and Markets: Report and Recommendations of the New England Demand Response Initiative*, (July 23, 2003), p. 16]

A traditional argument against economic demand response programmes has been that lower market clearing prices will reduce the incentive for investor-owned corporations to build new supply. However, if the Government of Ontario decides to enter into long-term contracts with investor-owned companies for new supply, a high spot price for electricity will no longer be necessary induce new supply.

Therefore the OCAA recommends that the IMO establish an aggressive economic demand response programme to reduce the electricity bills of consumers and the Government of Ontario.