



March 5, 2004

Comments - IMO Transitional Demand Response Program

The following comments are those of Energy Profiles Limited, representing various large commercial consumers, served at the Retail level, who have an interest in participating in such a program.

Overall we are pleased to see progress being made in this highly important area. Eighty- three percent of Ontario's load, the Retail consumers – both large and small, have not had the ability, or have not seen fit, to respond to hourly market prices. This situation must change to achieve a properly functioning market.

We recognize that important procedural details have yet to be specified with the program as currently outlined. However we encourage the IMO to proceed expeditiously with necessary program approvals, and building of operational mechanisms, while at the same time confirming program details with consideration to stakeholder input. We believe there is sufficient structure to the program as currently defined to begin development of project applicants. Such progress will be impaired unless formal commitment and forward motion is evident from the IMO.

Specific comments follow:

Eligibility and Bid Size:

The program contemplates both individual loads and aggregators as program participants. We expect that in this context an *aggregator* was considered as a party who would combine small, scattered loads that would not otherwise be eligible, or practical to participate on their own.

We submit that the role of aggregator can also have a different and equally important function. Large commercial consumers, and some industrial consumers, often engage the services of an energy advisor or consultant to assist in managing electrical costs and operations. This is an interesting characteristic of how the Ontario market has developed. There are a number of established, reputable firms fulfilling this role. We anticipate that many large consumers would prefer to participate in such a program through their existing energy advisor, acting as their agent, rather than as direct participants.

As such, we suggest that the 5 MW cap per participant should not be applied to an aggregator, as described here, but rather to the end-use consumer or specific project behind the aggregator. (For example, an aggregator of large commercial consumers may bring forward four individual end-use consumers offering 0.5MW, 2 MW, 2.5MW and 5 MW respectively. Clearly the individual projects should be considered for program participation on their individual merits and not excluded because the aggregate is greater than 5 MW).

100 MW Program Cap:

We recognize and respect the need to start with some manageable size of program. The number, scope and quality of applicants to the program will provide valuable information regarding the market potential for developing DR capability, in and by itself. As such, we encourage the IMO to carefully assess the quality and materiality of program applicants received in the first phase, with consideration to quickly adjusting the scope of the program to accommodate quality applicants while building DR capability.

Scalability

Depending on the success of the first stage of the program, it is highly likely that additional participation will be available from consumers scaling their DR plans. For example, a multi-location consumer may participate on the basis of implementing DR in a controlled sample of facilities, to gain experience while controlling risk. With a successful outcome, the investment could be replicated in additional facilities representing tremendous gains and contribution to overall DR capability. With this in mind we believe the IMO should recognize this potential for scalability and move quickly to accommodate it in subsequent program phases.

Distributed Generation:

Distributed generation including load displacement and standby generators represents a tremendous untapped resource for meeting peak electricity demand. We trust that such measures would be regarded favourably as applicants to this program. Measurement and verification of such projects would be greatly facilitated by using generator output data in conjunction with total facility load to establish net load reduction.

Payment:

Assurance of payment to participants based on the 3 hour ahead pre-dispatch price is central to encourage participation in the program. Indeed it is the lack of confidence by large consumers between pre-dispatch and dispatch prices that fundamentally has discouraged the development of DR capability to date. This lack of confidence has caused some large consumers to question whether this DR program will somehow tend to dampen pre-dispatch prices, such that HOEP routinely turns out to be higher than the 3 hr ahead price. To address these concerns we suggest that it would be appropriate to base payment on the greater of 3 hour ahead price or actual HOEP.

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