



Association of Major Power Consumers in Ontario

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**Subject: Comments on the IMO Economic Demand Response
“EDR” Pilot Program**

The Association of Major Power Consumers in Ontario (“AMPCO”) welcomes the opportunity to comment on the Demand Response (DR) Pilot program described in the IMO document MAC-04-10.

Background

To begin, it is useful to comment on the role of DR in general. It is widely understood that in periods of tight supply, reliability can be improved and upward pressure on prices can be relieved by either demand reductions or supply increments. In mature markets, responsiveness of both demand and supply to prices softens the impact of variations due to seasonal factors affecting demand and supply, or variations due to unexpected events.

Deregulated electricity markets are in their infancy and still face many institutional and other barriers to the development of this adaptability. Other markets such as ISO NE, ISO NY and PJM have recognized this and have attempted to introduce measures that, at least on an interim basis, would encourage the responsiveness of selected segments of the market that have the potential to be more reactive. Given the time required to bring on new supply, these programs have focused on demand segments that can be reduced on short notice, with reasonable reliability and in sufficient quantities that there will be a noticeable market effect.

AMPCO believes that describing these programs as “Programs wherein load is paid not to consume”, as the referenced document does, is not at all useful. Rather, under these programs, it should be recognized that consumers must forego private benefits by reducing consumption in order to provide public benefits to all consumers in the form of improved reliability and lower prices. Since these benefits, by their nature, cannot be captured by those participating in the program, it is thought to be reasonable that the other beneficiaries compensate the participants in some form or other.

Proposed Pilot

The objectives of the pilot program require clarification. As referenced in the IMO document # MAC-05-02, the stated objective is the "...development of an economic demand response pilot program intended to build the Ontario market's demand response "capability" and infrastructure...while the... Bill 210, are in effect. The purpose of the pilot would be to "kick start" demand responsiveness in Ontario by working to overcome specific barriers that are currently preventing some Ontario customers from being responsive to wholesale market price signals." AMPCO submits a refinement to this objective. In general, the objective should be to achieve the greatest price responsiveness per dollar spent by consumers generally on the program.

This refinement should help to guide decisions around which market segments should be targeted, and the priority with which they should be targeted.

AMPCO believes that the discussion paper makes the error of presuming that it can identify the sector that can best meet this objective. It appears to presume that load exposed to variable prices has reached its maximum price responsiveness. The experience in other jurisdictions in the United States is quite the contrary. Larger loads, while they may be exposed to variable prices, may still not be incented to reduce consumption if they are realizing benefits from that consumption. This is the critical barrier to incenting these loads. In these cases, making payments to these large loads may solicit significant demand response, with benefits for all consumers-as described above.

Smaller consumers with fixed price contracts must be aggregated, must undergo equipment improvements and finally must also be persuaded - through some form of compensation - to reduce load. These are the critical barriers to incenting participation from these loads. While this may be a laudable long-term objective, it takes time and is expensive.

Without definitive information on which approach is likely to be effective, and since all consumers will be asked to pay for the program (probably through another addition to uplift), any pilot program should be structured so that a broad cross-section of the market can participate. Experience will show which segment can best meet the objective of cost effectiveness. Whatever mechanism is devised for the implementation of the program, any compensation should be based on measurable contributions to demand reduction in target periods.

A working group consisting of representatives from each segment of demand should be established to provide the IMO with advice on features of the pilot that would be effective in attracting participation.

We trust that these comments will assist the IMO in its efforts to improve the demand responsiveness of the Ontario market. We would be pleased to answer any questions you may have on the points raised here or on other related issues.

Sincerely,

Mary Ellen Richardson
President
AMPCO