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1801 Hopkins St. South
Whitby ON Canada L1N 5T1
Ph: 905-665-3730
Fax: 905-665-3715
Email: dmacdonald@gerdauameristeel.com



October 7, 2003

The IMO
Station A Box 4474
Toronto ON Canada M5W 4E5

Attention: Jim Kelbert

Dear Jim:

Subject: Comments on the EDRP Pilot

In response to your request for comments on the EDRP pilot Gerdau Ameristeel has the following comments to offer. Although we agree that HADL and EDRP mechanisms exist, we do not necessarily agree that they encourage demand response.

HADL

The HADL program does not “pay” a load for a demand reduction. The only way a load can increase the incentive to participate in the HADL program is to: 1) Hope for volatility that will cause the pre-dispatch and dispatch prices to vary widely and 2) If such variance occurs, manipulate their bids to achieve a payment that makes economic sense. The HADL program could be simplified by paying the load a payment equal to their curtailed MWs multiplied by the HOEP for the hours curtailed. In addition, the load should be able to bid a minimum down time.

EDRP

The EDRP program although it exists, is not low enough on the activation list to provide benefits to the market such as reduced energy costs and reduced emissions. The EDRP customers have bids that could be stacked against other energy bids, at a point where the system is only starting to be stressed, rather than as a last resort. This would greatly increase the interest in participation. This program is also very restrictive in that loads cannot readily adjust their bids.

Temporary Kick-start

In other markets where Economic Demand Response Programs have been in place for several years, there are plans to strengthen the incentives for participation, so it may be too early for the IMO to decide that it is possible to get loads to reduce demand simply on price signals alone. For example, NYISO has found it is necessary to pay loads both a fixed capacity payment and an energy payment based on the actual response provided. The payments are based on an auction for the capacity and a load’s bid price for energy. Incentives such as these have been acknowledged by other ISO’s as necessary to encourage loads to participate. We should take the lead from neighboring ISOs, with more history and experience with EDR programs, like those in the NE.

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October 7, 2003

Page 2

Recommendations

All market segments should be targeted for a pilot to improve demand response, however our comments will be restricted to the wholesale market participants.

If the Blackout proved anything, it is that the wholesale market has much to give with respect to demand response. It would be prudent for the IMO to focus efforts on where the largest amount of demand response can be readily achieved. The wholesale market is ready and waiting to respond if encouraged to through a "market based" payment as described above.

In developing the details of a market based system the IMO should encourage flexibility. Loads should be dispatched based on price and flexibility, consider the following:

Load A (Flexible) - 15 minute response time, 1 hour minimum down time, \$150 energy bid

Load B (Not Flexible) - 2 hour response time, 4 hour minimum down time, \$150 energy bid.

In this case, Load A should be selected.

We would be pleased to participate in a working group that develops the rules for a wholesale "pilot" economic demand response program.

Sincerely,

Darren MacDonald
Energy Manager

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