

Memo to: IMO  
From: Jack Gibbons, Ontario Clean Air Alliance  
Re: February 18, 2004 Market Advisory Council Meeting  
Date: February 17, 2004

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The IMO should implement an **aggressive** programme to incent consumers to reduce their demands at times of peak demand or supply shortages. Such a programme would provide the following benefits for Ontario:

- A dramatic reduction in the market clearing price for electricity and hence the electricity bills of consumers and the Ontario Electricity Financial Corporation. 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].
- Reduced need for high-priced power imports.
- Reduced risk of blackouts and brownouts.
- Reduced need for new generation and transmission infrastructure.
- The *New England Demand Response Initiative* is proposing that the New England ISO pays 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, given that the Government of Ontario has decided to enter into long-term contracts with investor-owned companies for new supply, a high spot price for electricity is no longer necessary to induce new supply.
- Unfortunately, the IMO is proposing a very weak and timid programme to reduce peak day demand [IMO, *Transitional Demand Response Program*, February 9, 2004]. Key features of the IMO's proposal are as follows:
  - The amount of demand reduction that the IMO will purchase during the first year of the programme is capped at 100 MW or less than one-half of 1% of Ontario's peak day supply requirements.
  - The maximum demand reduction per participant would be 5 MW.

- The price for demand reductions would be based solely on the 3 hour in advance pre-dispatch price. That is, the IMO is not attempting to buy demand reductions 8, 16 or 24 hours in the future based on 8, 16 or 24 hour in advance pre-dispatch prices.
- The programme is only available during peak hours. That is, it is not in effect during periods of supply shortages if the shortages occur during off-peak hours.