

# IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: June 16, 2010

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: BRIEFING NOTE

The purpose of this memorandum is to update the IESO Board of Directors on the highlights of the discussion from the March 31, 2010 Stakeholder Advisory Committee meeting and on the sector discussion of priority items for the Ontario Electricity Market. All members of the Stakeholder Advisory Committee were in attendance at the session.

As well, IESO Board Members in attendance were:

Mr. James D. Hinds – Chair  
Mr. Rudy G. Riedl  
Ms. Roberta S. Brown  
Mr. David Cassivi  
Ms. Angela Ferrante  
Mr. Paul Murphy - President and CEO  
Mr. Howard Shearer  
Mr. John Wiersma

## **Agenda Item #3: IESO Senior Management Update – Mr. Bruce Campbell**

### **(a) Navigator report on results from the annual Customer Survey**

Mr. B. Campbell conveyed his thanks to all of those who participated in the annual Customer Survey, and noted that the results are considered carefully by management in our planning and that the IESO pleased with the results.

### **(b) MDM/R / Smart Metering update**

Mr. B. Campbell mentioned that there are more and more LDCs in the production environment with the MDM/R, and overall the plan to switch consumers to time-of-use rates is on track.

Mr. White asked two questions about web-presentment of data, and about third party access to MDM/R data. Mr. B. Campbell stated that LDCs and the EDA have taken on the obligation of ensuring that every LDC had a web presentment capability for their customers. He went on to respond that the rules around third party access have not been worked out yet and further consultation will be needed.

Mr. Schembri asked about the availability of data from interval-metered accounts when time-of-use rates are implemented and if tools such as MV-90 and pulse systems would still be available to which B. Campbell stated that he had not heard of any change to data availability.

**(c) IESO response to MSP report**

Mr. White asked about timing of a market rule amendment relating to Recommendation 3-4 (Congestion Management Settlement Credit payments for exporters and dispatchable loads).

B. Campbell stated that the amendment should be expected before the Technical Panel on May 11<sup>th</sup>.

Mr. Wight asked about the operational date for the phase-shifters referenced in Recommendation 3-2. Mr. B. Campbell responded that both the IESO and Hydro One were working with their American counterparts to get the phase shifters operational. Mr. Whyte added that the owner has a rate case to be launched within a few days.

**Agenda Item #4: Market Surveillance Panel Report – Mr. Neil Campbell**

Mr. White asked whether there are efficiency losses being induced by inaccurate targeting of the DR3 program, and whether there are changes planned to increase its efficiency. Mr. N. Campbell responded by stating that efficiency has been analysed in previous panel reports and that technical changes were made in September 2009 with the addition of a pre-dispatch price trigger.

Mr. White also asked about uplifts in the Northwest and whether the Market Surveillance Panel would recommend that the IESO revisit locational marginal pricing. Mr. N. Campbell responded that the Panel continues to believe that the original plan to evolve to locational marginal pricing would be a more efficient way to operate the Ontario market. He added that another form could be a hybrid consisting of locational prices for dispatchable resources and an hourly provincial average for all non dispatchable loads.

Mr. Wight asked if the Panel would consider a full study of the global adjustment. Mr. N. Campbell stated that the panel has done some work on the global adjustment in the past and added the Panel is concerned that so much of the effective price is not contained in the price signal.

**Agenda Item #5: Ontario's Smart Grid – Mr. Don Tench**

Mr. Tench responded to Mr. White's question about the role of energy consumers in this process by stating that the Forum is developing "Corporate Partners" as a separate group that would include many other aspects of the industry including consumers. Mr. Murphy added that it is important to engage those who are investing in smart grid applications for consumers, and while there is a representative of commercial consumers on the Forum, if there are ideas for better consumer representation, they will be considered.

Mr. Schembri added that he agrees of the importance of end-use consumers contributing in the progression of a smart grid, and asked if LDCs will be sharing information and advancing customer needs with a uniform approach. Mr. Tench agreed that broad coordination is necessary, and the OEB should play a role in this.

**Agenda Item #6: Allocation of Global Adjustment – Mr. Brian Rivard**

Mr. Schembri asked about setting the minimum service size for the allocation of global adjustment. Mr. Rivard answered that the implementation threshold is being looked at, specifically the megawatt threshold and the transition period.

Ms. Girvan asked about the consequence of overall demand increasing and if other alternatives were looked at. Mr. Rivard responded that peak demand will be reduced, that higher demand in non-peak hours will be useful to utilize contracted resources, and that while they were open to other options for analysis but they all seemed to fall within the class of a coincident peak or a time-of-use.

Ms. Serafini added that in a jurisdiction trying to create a culture of conservation, a model that decreases demand overall would be preferable.

Mr. White added further that increased demand could help alleviate surplus baseload conditions, and lower system peaks is the preferable environmental outcome, which will lead to less reliance on fossil fuels.

Mr. Horrobin asked if the models were stress tested for a range of different demands scenarios or price scenarios. Mr. Rivard stated various demand scenarios were looked at, but not different demand shapes, and further stress testing could be considered in future.

Mr. Rivard responded to Mr. Wight's question on implementation timelines by stating that they still to be determined, but they are working with the Ministry on timing.

**Agenda Item #7: Sector Discussion on Priority Items for the Ontario Electricity Market**

Mr. Witjes asked for each sector to have a five-minute opportunity to share with the Committee some of the issues affecting their particular sector.

The input provided by the sectors can be found in the attached addendum.

There were no common priorities shared among all the sectors which is to be expected given the diversity of the 10 various sectors on the committee. Issues that were common to many were managing the upward pressure on prices, the impacts on the global adjustment and concern on the current price signals, opportunities for demand side management, and need to continue to evolve the electricity markets in Ontario.

The SAC would welcome feedback from the IESO Board on the sector priority issues raised and if exercise was deemed useful by the Board and should be explored further.

**Agenda Item #8: Other Business**

Mr. Whyte requested an update on the dispatch of existing wind generators and the discussions with the OPA. Mr. B. Campbell responded by providing some background to the issue, and stating that the expectations of the IESO were outlined in the memo that Ken Kozlik sent to all Renewable Energy Supply contact holders. Further, Mr. B. Campbell noted the discussions with the RES wind generators, the OPA and the IESO were ongoing, and would include gaining a better understanding of the operational requirements or limitations of the various wind farms.

John Witjes, Chair  
STAKEHOLDER ADVISORY COMMITTEE

## ADDENDUM

Each Sector presented their priority items for the Ontario electricity market.

### DISTRIBUTORS

Mr. Bentz noted the challenges of managing upward price pressure on consumers in light of: the increasing costs of conservation and distributed generation; the pending implementation of the Harmonised Sales Tax; the implementation of Time-of-Use pricing; and potential OPG commodity and Hydro One transmission rate increases. He stated that that consumers need greater price transparency and the tools to respond effectively to these challenges. He further indicated that the smart grid itself and the definition of smart grid priorities are essential requirements because the grid needs to be ready to properly integrate renewable energy and conservation.

### MARKETER/BROKER/RETAILER

Mr. Wight read a prepared statement for his presentation.

Good Afternoon – My name is Gary Wight, and I am making this statement on behalf of Adèle Malo and myself. Presently I am working as an energy consultant prior to which I was Vice President of Energy Policy for Constellation Energy, Adèle Malo works with energy retailer Direct Energy, as EVP G&RA and General Counsel, prior to which I was General Counsel at Ontario Power Generation.

On behalf of the Retailer/Marketer /Broker community represented by Adèle and I, we would like to offer our thanks for the opportunity to speak today to offer our perspective on issues we believe the Board might or should consider addressing in the near to mid term.

Our membership is comprised of parties who operate in the retailing, marketing and trading of energy in Ontario, and who are all keenly interested in creating and maintaining an electricity market that advances the goals of the Ministry, the IESO, the various administrative bodies operating in Ontario as well as those of the stakeholders we represent, all of whom can achieve their goals reasonably in an appropriately designed market. These retailer/marketer market participants established themselves in Ontario in response to the creation of what was to be a vibrant and functioning market where competitive forces resulted in the positive outcomes that have been experienced in other jurisdictions in Canada, North America and the world.

It would be perhaps naïve, or even disingenuous to ignore the fact that the Ontario electricity marketplace is struggling to find a transparent and macro-economically sound approach. The lack of a meaningful debate or progress toward a well designed Day Ahead Market, potential benefits of Locational Marginal Pricing, the challenging issues for importers and exporters created by export curtailment rules and inefficient

seams between Ontario and other jurisdictions, the hybrid nature of the market, pricing that is frequently referred to as 'important' but not well addressed, the Global Adjustment - there are a number of technical issues facing the Ontario market that most Ontarians cannot begin to see or understand and which will quite possibly result in problems that will grow larger, not smaller, with time if left unattended.

Our market evolution has not followed a path that provides our members a sense of confidence that they have a reasonable environment in which to operate - players, for example Scotia McLeod and Constellation, have exited the jurisdiction and others will likely follow if there is no sign of a willingness to make this a viable place to do business through a functioning and robust market framework. No one would or has asked that the path be arrow-straight and entirely known, but ours has been one where it would be worthy of the Board to contemplate taking courageous positions - not confrontational positions - where reasonable market evolution was supported as the best and most logical way forward, which could see the objectives of many market participants met, regardless of perspective. Perhaps the important issue is whether market evolution is in fact a matter that the IESO Board should, can or will consider in a timeframe that provides hope that some of these issues can be addressed.

In terms of signs of progress, and not just a broad request to "boil the ocean", our group would be pleased to see positions put forward by the IESO that support a renewed effort at market evolution that included, among other things, transparency in pricing currently lacking as a result of, among other things, the Global Adjustment mechanism, import/export rules that recognize the interdependence of the system and moves to increase liquidity.

If the true answer is that the IESO cannot see it's way clear to supporting some form of market evolution then the reality is that the retailer marketer broker community is not sure if it has a role to play in Ontario. The IESO is an implementing agency that may not set policy, but it nonetheless has an important role to play in informing and leading policy makers.

We encourage the IESO to consider this matter and its implications seriously as it sets its priorities. The Marketers and Brokers thank you for the opportunity to raise our concerns and we remain willing to work with the IESO to develop possible solutions.

Sincerely

Adèle Malo, EVP & General Counsel - Direct Energy

Gary Wight, Energy Consultant

This statement is posted on the web at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20100331-Marketers-Brokers.pdf>

## TRANSMITTERS

Mr. Smith discussed the cost pressures due to enabling distributed generation and investing in transmission infrastructure. He referenced a FERC Notice of Proposed Rulemaking to use NERC rules down to a 100kV threshold, which would add costs without providing much value back to consumers, and suggested the OEB should consider remand the rule.

## ENVIRONMENTAL

Ms. Serafini suggested that the Stakeholder Advisory Committee should continue to articulate the future vision for the electricity sector, and avoid getting bogged down with reactionary issues, so the key initiatives get pushed forward, like the integration of renewable energy and energy storage.

## EMBEDDED INDUSTRIAL CONSUMERS

Mr. Williams referenced three key issues; solving the issues around the global adjustment, a desire for increased price transparency such that the total bill impacts are known for a clear all in prices and can be budgeted for, and thirdly affordable electricity especially compared to neighbouring jurisdictions. Mr Williams added that his sector supports the Coincident Peak model as the best solution to the Global Adjustment.

## WHOLESALE CONSUMER MARKET PARTICIPANTS

Mr. White discussed the opportunities on the demand side for loads when the appropriate price signals are developed and when meter data is made available. He continued that the increasing costs are borne by consumers and the opportunity for education in terms of environmental performance and improved reliability. Mr. White also advocated for pursuing locational marginal pricing and rationalization of distribution companies to increase efficiency.

## RESIDENTIAL

Ms. Girvan commented on the lack of customer education in the sector and the many sources of increased costs that will be borne by consumers.

## GENERATORS

Mr. Whyte discussed the nearly totally contracted supply market in Ontario, stated that the IESO should be pursuing initiatives on the demand side, and not the supply side to reflect this reality, and implored the IESO to pursue those relevant items the sense of urgency that they demand.

Mr. Horrobin expressed concern on the current price signals in the Ontario market, and that they need to be more effective in the future. The issue of surplus baseload generation also needs significant attention, and how different generators can be engaged to provide solutions.

## COMMERCIAL

Mr. Schembri brought up four main points: the relationship between the global adjustment and the provincial benefit billing quantity causes significant cash flow issues; there are significant untapped conservation and demand management opportunities in the commercial sector; the FIT program provides significant opportunities, but obstacles need to be removed (specifically capacity-exemptions and onerous paperwork); and there is an opportunity for the IESO to provide more timely information on the carbon-intensity of electricity generation. Mr. Schembri provided a slide deck which can be found on the public web site at: <http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20100331-Commercial.pdf>

## PUBLIC SECTOR

Mr. Witjes echoed the previous comments on increasing prices and the need for effective price signals, and expressed concern with inability to hedge against electricity prices due to the global adjustment which could be somewhat diminished by increased transparency.