

**Ministry of Energy**

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MC-994-2022-701

August 29, 2022

Ms Lesley Gallinger  
President and Chief Executive Officer  
Independent Electricity System Operator  
1600—120 Adelaide Street West  
Toronto ON M5H 1T1

Dear Ms Gallinger:

I am writing to you regarding the Ministry of Energy's (ENERGY) proposal to launch an interruptible rate pilot. Providing large customers with an interruptible rate is part of the government's commitment to providing more choices for households and businesses to manage their electricity usage and lower their bills. It also follows our government's steps on a proposed ultra-low overnight electricity rate for residential consumers and a proposed dynamic pricing pilot for non-Regulated Price Plan (RPP) Class B consumers (i.e., commercial, agricultural and small industrial consumers). An interruptible electricity rate could also support a more efficient electricity grid that would reduce costs to consumers and reduce greenhouse gas emissions across the province, benefiting us all.

You will recall that in November 2021, ENERGY posted a proposal on Ontario's Regulatory Registry entitled *Interruptible Rate Pilot and Administrative Review of Ontario Regulation 429/04*. Following the Registry posting, in April 2022 I communicated in a letter to stakeholders a commitment to launch an interruptible rate pilot in 2023.

To meet this timing commitment, I ask the Independent Electricity System Operator (IESO) to work with ENERGY toward designing a three-year interruptible rate pilot. If the proposal is approved to proceed, the pilot would begin on July 1, 2023 to align with the Industrial Conservation Initiative (ICI) cycle. This work should include a focused consultation with stakeholders in early fall.

In conducting this stakeholder consultation, please ensure the following three pricing design options are presented to stakeholders:

1. Hourly Ontario Energy Price (HOEP) plus a volumetric charge plus a demand charge, where the volumetric charge would be a bid parameter;
2. HOEP plus a demand charge; and
3. A volumetric all-in commodity charge.

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In addition, the IESO should design the pilot such that it provides a system benefit (i.e., peak demand reduction) and a benefit to pilot participants, while minimizing potential cost transfers to other electricity consumers. Simplicity is also critical, to ensure that financial settlement is as straightforward as possible and to encourage participation among eligible consumers. Finally, the pilot should be designed with the potential for a permanent program in mind.

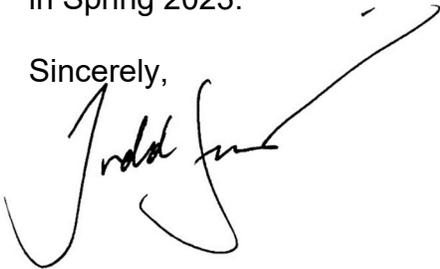
Further to the above design principles, the pilot should also adhere to the following parameters:

- A maximum pilot size of 200 megawatts of interruptible power;
- Eligibility should be limited to facilities connected directly to the IESO-administered transmission grid, with an exception for certain hydrogen producers;
- Consideration should be made as to how an interruptible rate could support the province's Low-Carbon Hydrogen Strategy;
- Pilot participants would be required to opt out of the ICI to participate;
- The use of a competitive process to select participants that employs multiple criteria in addition to price, including, for example, location, sector and quality of plan for load reduction;
- The commodity price paid by pilot participants should be set at a level that exceeds the anticipated commodity price paid by Class A consumers, on average;
- The maximum number of interruptions required should be less than the number of actions taken by a typical ICI participant to avoid peak demand periods; and
- For participants that return to ICI upon completion of the pilot, commodity charges should be as consistent as possible with charges prior to participation in the pilot.

Taking into account all the above considerations, please report back to me on a detailed pilot design proposal and proposed participant selection process by **December 9, 2022**. The report back and accompanying recommendations should consider stakeholder input, where practical, in a manner that ensures that the interests of all relevant parties are considered.

I look forward to working with your organization to help deliver an interruptible rate pilot in Spring 2023.

Sincerely,

A handwritten signature in black ink, appearing to read 'Todd Smith', with a long, sweeping flourish extending to the right.

Todd Smith  
Minister

c: Stephen Rhodes, Deputy Minister of Energy