

# Energy Payments for Economic Activation of DR Resources

Meeting date: 13/02/2020

Meeting time: 1:00 p.m.

Meeting location: Vantage Venues 150 King St W Toronto

Chair/Sponsor: Dale Fitzgerald, Senior Advisor, Stakeholder

Relations IESO

Scribe:

Please report any corrections, additions or deletions by e-mail to [engagement@ieso.ca](mailto:engagement@ieso.ca)

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Organization	Name of Participant	Attended (A) or Webinar (W)
Alectra Utilities	Mortage, Hamza	W
AMPCO	Anderson, Colin	A
Atlantic Packaging Product Ltd	Kostal, Todd	W
Bruce Power	Zhang, Alvin	W
Capital Power	Coyle, Emma	W
Cascades	Ross, Jean-Philippe	W
Centre for Urban Energy at Ryerson University	Ma, Jessie	W
Customized Energy Solutions	Luukkonen, Paul	W
Customized Energy Solutions	Withrow, David	W
Enel X	Griffiths, Sarah	A
Essex Energy Corporation	Calibani, Marco	W
Essex Energy Corporation	Casey, Patrick	W
Gerdau Long Steel North America	Anthofer, Jeff	W
Great Circle Solar Management Corporation	Antic, Tina	A
Hydro One Networks Inc.	Bosomworth, Steven	W

Organization	Name of Participant	Attended (A) or Webinar (W)
Ivaco Rolling Mills 2004 LP	Abdelhour, François	A
Lakeland Holding Ltd.	Ewald, Peter	W
MAU/MSP	Sitnik, Egor	W
Ministry of Energy	Akhter, Freed	W
Ministry of Energy	Kersman, Paul	W
Northland Power Inc.	Samant, Sushil	A
Northland Power Inc.	Veldhuizen, Jon	A
NRG Curtailment Solutions, Inc.	Briggs, Kara	W
Ontario Energy Association	Coulbeck, Rob	A
Ontario Energy Board	Brown, David	A
Ontario Energy Board	Cincar, Chris	W
Ontario Energy Board	Djurdjevic, Ljuba	W
Ontario Power Generation	Kim, Jin	A
Power Advisory	Esakkimuthu, Bharathi	W
Rayonier Advanced Materials	Laflamme, Serge	W
Resolute Forest Products	Degelman, Cara	A
Rodan Energy Solutions	Forsyth, Dave	A
Strapolec	Berlin, Jesse	W
The Brattle Group	Lam, Long	W
The Brattle Group	Spees, Kathleen	A
TransAlta	Codd, Chris	A
Workbench Corp.	Jayapalan, Jennifer	W
Workbench Corp.	Sears, Heather	W
IESO	Ferner, Emma	A
IESO	Fitzgerald, Dale	A
IESO	King, Ryan	A
IESO	Lafoyiannis, Anna	A
IESO	Ng, Hok	W

Organization	Name of Participant	Attended (A) or Webinar (W)
IESO	Nusbaum, Stephen	W
IESO	Nollert, Beverly	A
IESO	Trickey, Candice	A

## Agenda Item 1: Welcome and introductions – Dale Fitzgerald, Candice Trickey

The IESO welcomed stakeholders to the meeting and provided an outline of the day’s agenda, as well as additional context for the purpose and objectives of the engagement meeting.

- Discussion on stakeholder feedback – Beverly Nollert

The IESO provided a brief re-cap of the materials presented at the December 11<sup>th</sup> engagement meeting, reviewed stakeholder feedback provided on the energy payment compensation options to be considered in the study, and provided a summary of the IESO’s response to the feedback. The IESO explained how the scope of the engagement has been expanded to include the shut-down cost question as a result of stakeholder feedback.

*Issues and questions raised by stakeholders included whether the Global Adjustment was included in the FERC Order 745 net customer benefits test calculation in the Ontario context and whether the applicability of the net benefits test in Ontario would change if the Global Adjustment were to decrease or disappear.*

The IESO clarified that an overview of the net benefit test is covered as part of the next agenda item and that stakeholders would have an additional opportunity to review the details of this calculation when the full findings of the Brattle Group’s energy payments study are posted in March.

## Agenda Item 2: Preliminary findings from the energy payment study – Beverly Nollert, Kathleen Spees

The IESO explained that the preliminary energy payments study findings focus on two of the four compensation models captured in the study scope: (1) the status quo option whereby no energy market payments are remitted to demand response resources, and (2) the option whereby demand response resources are paid at the wholesale price, subject to a net customer benefits test.

The consultant from the Brattle Group provided an overview of the two preliminary findings, indicating that under the status quo, demand response customers exposed to the wholesale electricity price are already incentivized to curtail at the appropriate level. Brattle acknowledged there may be exceptions to the status quo, including price formation challenges and instances where the basis for demand response activation differs from that used in settlement. Brattle also acknowledged that RPP-exposed customers are not currently fully incentivized to respond to wholesale market conditions. Brattle provided a qualitative explanation of the preliminary findings of the FERC Order

745 style net benefits test and outlined the shortcomings of applying the test in Ontario, including the cost-shifting impact from Class A to Class B customers given that: benefits from price suppression would be offset by increases to the Global Adjustment; and, Class A customers can avoid paying Global Adjustment through participation in the Industrial Conservation Initiative which means more of the costs are recovered from Class B customers. Brattle also provided findings related to alternative supply-side models that aim to more fully enable demand response resource participation in the energy market; while interesting, these findings are more about the evolution of the demand response participation model rather than the energy payment issue raised by stakeholders.

*Issues and questions raised by stakeholders included whether “incentivized” is an appropriate term to use when describing the motivation of a demand response resource to curtail given that these resources do not receive a payment for the curtailment. Other feedback about DR resources motivations for curtailment was provided indicating that a number of issues exist, including: the maximum market clearing price could be lower than a demand response resource’s Value of Lost Load; it is mandatory for demand response with a capacity obligation to bid into the wholesale market to avoid having availability payments clawed back; and because some demand response participants are motivated by the Hourly Ontario Energy Price (HOEP) whereas others are motivated by the Global Adjustment. One stakeholder suggested that the discussion should move on from the FERC Order 745 net benefit test given that the OEB, in its decision on the AMPCO proceeding, noted that the order is not relevant to the determination of the issues in the proceeding given the differences in the markets. Another stakeholder noted that discussion of an Ontario-specific net benefits test is warranted, particularly around the treatment of Global Adjustment in the test, and that more details are required in order for stakeholders to understand the alternative supply-side models for demand response compensation that Brattle is recommending. A stakeholder asked about the net benefit calculation at higher market prices - such as \$500/MWh – when a number of the resources in the energy supply stack do not receive additional profit above their contracted or regulated price.*

Brattle acknowledged the existing challenges associated with the Ontario market, including that the HOEP is an incomplete signal since currently it does not account for locational pricing, however, Market Renewal will address some of these price signal inefficiencies. Brattle confirmed that a load could have unrecoverable costs if their Value of Lost Load were greater than the maximum market clearing price. Regarding the net benefits test, the IESO indicated examples of how the net benefit test calculated in the Brattle analysis will be covered at the next engagement meeting in order to increase stakeholder understanding of the Brattle findings. The IESO confirmed that further details regarding the proposed supply-side model from Australia (‘the Australia model’) would be included in the final Brattle report, which is forthcoming.

### Agenda Item 3: Expanding the scope of the engagement to include the shut-down costs – Beverly Nollert

The IESO provided an overview of the rationale for expanding the scope of the engagement to include shut-down costs, the proposed timelines for executing on the expanded scope, and a request for stakeholder input on the specific nature of shut-down costs in order to develop and evaluate options through a series of targeted questions.

*Stakeholders communicated support for expanding the scope and an intention to provide information on shut-down costs in order to support options development. Stakeholders raised the issue of the short timeframe for providing feedback on the nature of shut-down costs, data confidentiality concerns, and the challenge for demand response aggregators associated with providing this information due to portfolio size and diversity of load types.*

The IESO indicated flexibility regarding the timeline for receiving stakeholder feedback on shut-down costs and that confidentiality protocols would be followed such that information provided would not be widely circulated across the organization or publically released. The IESO acknowledged the challenges associated with providing specific data on shut-down costs, but welcome any broader insights on these challenges.

### Agenda Item 4: High-level options to address the shut-down cost questions – Beverly Nollert

The IESO presented four high-level options for addressing the shut-down cost question which will be further scoped and evaluated based on the input received from stakeholders. The IESO indicated that potential options will be evaluated against the Market Renewal design principles.

*Issues and questions raised by stakeholders included whether the same solution would be applied across different types of demand response resources and if the solution is the cost recovery approach, the framework will need to be designed so it is auditable, which may be more challenging than with the Real-Time Generation Cost Guarantee program due to the non-homogenous nature of demand response resources.*

The IESO indicated it will look to other jurisdictions who have done work to scope the nature and extent of shut-down costs for demand response resources, and is seeking information from stakeholders to inform further scoping of the options presented, including whether a one-size-fits-all approach is appropriate or whether hourly demand response resources and dispatchable loads should be treated differently.

### Agenda Item 5: Summary of discussion and adjourn - Candice Trickey

The IESO thanked stakeholders for their contributions to the day's conversation and reiterated that the IESO is committed to finding a solution to the shut-down cost question prior to the March 2021 capacity auction.

**The meeting adjourned at 3:30 p.m.**