

**IESO Stakeholder Engagement: Energy Payments for Economic Activation of Demand Response Resources – Shut-Down Cost Options**

**Observations of the Market Surveillance Panel**

**June 1, 2020**

On February 13, 2020, the IESO expanded the scope of the stakeholder engagement (SE) dealing with energy payments for economic activation of Demand Response (DR) resources to consider the question of how to account for shut-down costs incurred by these resources during an activation. The IESO provided the following explanation for expanding the SE:<sup>1</sup>

To date, this engagement and associated study has focused solely on whether or not to provide energy payments to DR resources. The IESO proposes to expand the scope of study to also include the “shut-down” cost question and to evaluate options other than energy payments to address the matter. This would be responsive to observations from the OEB hearing as well as stakeholder feedback on other options that should be considered.

In expanding the SE, the IESO presented stakeholders with four potential high-level options for addressing the issue.<sup>2</sup> It also requested stakeholders to provide specific information on the nature of shut-down costs and asked to confirm whether the “shut-down cost question articulated at the OEB [is] the root cause of stakeholder concerns that [the IESO is] trying to address with this engagement.”<sup>3</sup>

On May 21, 2020, the IESO indicated that it had not received feedback from stakeholders that was directly relevant to the issue at hand. However, the IESO did indicate that based on its own review of the four options through the lens of Market Renewal Principles, it was able to screen out two of them.

Consistent with its obligation to monitor activities related to the IESO-administered markets, the Market Surveillance Panel (Panel) makes the following observations with respect to the expanded scope of this DR SE. These observations are intended to encourage the IESO to clarify and to bring focus to the SE.

The Panel notes that the IESO has not provided an explicit current objective for DR product as a whole. Is it intended to address capacity needs at all times or at certain times like emergencies; to reduce energy prices; to provide ancillary services; or some combination? Clearly stated objectives will bring this DR SE process in line with the IESO’s own Market Renewal Principles and provide stakeholders with a firmer basis for assessing the options. Specific to this DR SE it is unclear what is the objective of addressing shut-down costs, as well as whether the shut-down costs will be considered as additional to or instead of any possible future energy payments. It is not clear how paying for shut-down costs could

---

<sup>1</sup> IESO, “Energy Payments for Economic Activation of DR Resources – Meeting #3”, February 13, 2020, Slide 20, available at: <http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/epdr/epdr-20200213-presentation.pdf?la=en>

<sup>2</sup> Ibid, Slide 28.

<sup>3</sup> Ibid, Slide 24.

lead to improved efficiency and competitiveness of IESO-administered markets—both Market Renewal Principles.

The Panel also notes that the IESO has not received the stakeholder input it requested. It is unlikely that any objective of the expanded SE could be fulfilled in the absence of a thorough study of the nature and magnitude of shut-down costs faced by Ontario DR resources and the contribution DR might make to grid reliability and cost reduction compared to various generation resources. Such a study could not succeed without substantial stakeholder information.