



**APPrO**

ASSOCIATION OF  
POWER PRODUCERS  
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# APPrO Position on Addressing the Twelve Times Ramp Rate Multiplier Issue

Presentation to the IESO Stakeholder  
Advisory Committee  
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# Background (1)

- The 12 x ramp rate was introduced as a temporary expedient
- There never was any theoretical justification for the 12 x ramp rate in the first place...there is even less justification to continue the 12 x now
- This issue has been under debate for some time – the current review was initiated in response to an IESO Board direction in December, 2005

## Background (2)

- There is a system need for ramp. Absent an incentive for existing generators and new projects to provide ramp (intra-hour price moves) ramp shortage will become a barrier to wind additions and interchange transactions as it has in other jurisdictions
- Since last September APPrO has consistently urged the IESO to address the 12x ramp rate issue
- Our position has been that there are only two real options to resolve the issue:
  - Change the ramp rate multiplier back to 1x myopic, or
  - Additional compensation for ramping units through supplemental ramping payment which would compensate every generator and dispatchable load that provided ramp to the IESO



# The Need for Change

- Over the past 9 months the IESO has had the opportunity to review the issues and the various proposals in some detail:
  - Extensive stakeholder initiative during 2006 through the Market Pricing Working Group
  - AMPCO suggested changing the basis of the payment to the constrained-on generators so that all receive the bid price of the last ramping generator to be dispatched
  - APPrO put forward a solution that might be acceptable based on AMPCO's suggestion
  - And amplified this as requested in the LECG study presented to the MWPG on July 7, 2006
- The IESO has now brought forward its own recommendation...

# The Need for Change

- While we disagree with some aspects of the IESO's Paper on the 12x Ramp rate, we agree with two fundamental points it makes:
  1. "The combination of using the unconstrained methodology and the 12x ramp rate multiplier results in generators being under-compensated by the real-time energy price relative to what would be expected in any other real-time electricity market."(3)
  2. "The IESO accepts the basic finding of the APPrO/LECG report that there are nontrivial costs incurred by generators as they ramp their output up and down in response to dispatch instructions." (28)

# IESO's Estimate of the Net Impact on Customers

- IESO simulations suggest:
  - Energy price increase of about \$1.50/MWh (\$225 million per year)
  - After Global Adjustment and OPG rebate this would be about \$56 million net
  - Behaviour changes and arbitrage would reduce this number further – perhaps significantly
  - Increased HOEP would lead to lower CMSC and IOG payments – estimated to be about \$16 million reduction per year
  - Such savings would lower the impact of the energy price increase to result in net increases in payment for electricity by consumers of about \$40 million net prior to arbitrage, and probably well below \$20 million after participant response.

# IESO's Estimate of the Net Impact on Customers

- APPrO agrees with this analysis
  - MSP reported that some 75% of price changes are offset by these mechanisms
  - Others have made independent confirmations using public data:
    - These analyses indicate 74% total mitigation impact, with the % set to increase as new RES and other contracted projects are commissioned
    - The IESO's analysis that the impact is further reduced by import/export arbitrage is also valid, recognising that the 50% number is only a guesstimate based on some limited analysis
    - The IESO's estimates of IOG & CMSC offsets are part of their modeling -- it is reasonable to give them credence in this matter
  - An emphasis on the \$ 225 million is therefore alarmist and unhelpful

# Conclusion: Proposed 3x Ramp Rate

- Not APPrO's preferred outcome but...
- A step in the right direction which helps market efficiency
  - Improves the quality of the price signal, pays suppliers more appropriately
  - Current pricing method (12x/unconstrained) leads to depressed, non volatile prices, reduced efficiency
- A temporary solution
  - With LMP study and DAM project on the horizon, a change to the unconstrained real-time price is a transitional step
- Ideal situation is to have price reflect cost of dispatch
- *But.....“He who waits to do a great deal of good at once, will never do anything” -- Johnson*

# Summing Up...

- The 3 x ramp rate solution is not APPrO's first choice -- we invested significant effort into consideration of other options, including AMPCO's earlier ideas
- APPrO is however prepared to respect, and to concede to the IESO's judgment in this matter as expressed in its paper, and to support this as an appropriate interim solution
  - **APPRO would not be prepared to countenance dilution of this proposal**
- APPrO's position is that this is the time to act
- Our expectation is that the IESO will continue with efforts to improve real time pricing

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