

Major Power Consumers Feedback on IESO Strategic Objectives

The IESO has asked members of the Stakeholder Advisory Committee to provide detailed feedback on proposed strategic objectives and key initiatives for 2011: renewable integration, electricity market forum and energy modeling. These multi-year initiatives will continue to be part of the IESO's business plan over the 2012-2015 business planning cycle. The IESO proposes to expand its strategic objectives to include an increased focus on the consumer. The current strategic objectives include: maintaining reliability, preparing for future operations, efficiently managing our business, and effectively contributing to the development and implementation of government policy.

The IESO provided questions to guide the feedback provided by each sector.

1. Does your sector support the overall direction and intent of the IESO's strategic objectives?

Major power consumers' first priority is always health and safety. It is appropriate therefore that the IESO's first strategic objective is maintaining reliability.

The other three IESO strategic objectives' meaning is less clear. Preparing for future operations and efficient business management are both prudent and appropriate management strategies. Making an effective contribution to government policy is also prudent and appropriate for the IESO. It is not obvious, however, how these objectives deliver measurable outcomes that are meaningful to electricity customers.

The interests and focus of major power consumers in Ontario's electricity sector have two parts: (1) control of costs in the mandated, regulated, and administered part of the sector, and (2) efficiency from competition in the unregulated part of the sector. Generally speaking, the greater the part of the sector exposed to competition, and the more market-based approaches are adopted in the non-competitive part of the sector, the greater are the benefits for customers. Cost control means ensuring that customers' needs are met in a way that is least costly or most cost-effective. In terms of efficiency, we focus on the structure and institutional approach to regulation, and on the design and operation of the markets, with the aim to improve the fidelity of price signals, enhance price discovery, and thereby extend the benefits of market participation to larger numbers of relatively smaller customers.

2. Does your sector continue to support initiatives identified as the IESO's primary focus for the next three years: (a) Renewable Integration (includes managing Surplus Baseload Generation), (b) Market Roadmap, and (c) Energy Modeling?

Given the government's policy to subsidize new investments in small-scale, distributed, and renewable electricity generation, and to direct concomitant capital expenditures associated with connecting that generation to the grid, cost-effective integration of these assets into the electricity market must be a priority for the IESO.

We support the IESO's basic intent to not impede change, whether that change arises in the marketplace or from government policy. The IESO should be ready to accommodate the changes that may come, and help to guide and facilitate that change where it occurs. We do not, however, see the IESO necessarily as leading change, except in relation to its own systems, processes as responses to broader change. A significant number of new projects that have been announced, or that are foreseen in long term plans, may never arise. It is appropriate for the IESO to be ready for a range of outcomes, but it is also prudent to avoid prematurely committing to significant expenditures or organizational responses to events and contingencies that may never arise.

Major power consumers are supporting the market roadmap process. Not only is the process already delivering value in helping to identify and prioritize opportunities for improved regulation and market rules, but it also holds promise in building a consensus among electricity sector stakeholders in terms both of what is working well, and where there may be clear, practical opportunities for improvement.

Major power consumers, however, will be reluctant to support wholesale or dramatic changes for which the consequences have not been clearly worked out, supported by appropriate analysis, where potential implications are understood both in terms of the likelihood of occurring and the relative magnitude of impacts. Major power consumers are also major investors, major employers, and play major roles in the communities in which they operate. Long-term capital-intensive industries will not thrive in a market exposed to unbounded uncertainties and unknown risks. We can support positive change, but with the expectation that any changes will undergo an appropriate level of due diligence that creates a robust business case for change.

We support energy modeling as necessary and appropriate to identify and prioritize the opportunities for change, conduct the analysis needed to understand the implications, and make the case (or not) to move ahead. We have continued support this kind of investment by the IESO for a number of years and are eager to see the IESO move forward.

3. Is there a strategy or initiative the IESO has identified that your sector would not consider a priority?

Except for reliability, where the IESO's mandate is clear, there are no clear metrics for IESO objectives that we can relate to our priorities of cost control and efficiency. As the IESO expands its strategic objectives to include an increased focus on the consumer, we encourage the IESO to work on developing measures and benchmarks that will serve this need. The reports of the Market Surveillance Panel have identified possible inefficiencies, and assessed the potential efficiencies from recommended remedies. Their approach may provide a model to follow.

4. Is there something substantial that is not being addressed by the IESO?

The potential efficiencies from competition were a fundamental driver for the creation of the IESO, and remain the basis for its continued existence. While we support the IESO "efficiently managing its business", the potential gains from this have to be seen as trivial compared to the potential gains from the IESO more efficiently managing the markets it administers. Of necessity, major power consumers focus their resources where the rewards are greatest. It seems obvious to us that the IESO should do the same.

5. The IESO will be expanding its strategic objectives to include an increased focus on the consumer. From the SAC's perspective, what should this include? How would each of the sectors recommend the IESO accomplish this?

The IESO has three unique responsibilities in Ontario's electricity sector: to maintain reliability, to direct the operation of the grid, and to administer wholesale markets. Other agencies and entities have roles and responsibilities to serve customers. Customers themselves share responsibility for making appropriate consumption and demand management decisions. But demand management decisions will be only as good as the information customers have available to them.

Given the IESO's unique role, it is the only entity with an ability to provide impartial, fact-based, and objective market information. It is the IESO's own systems and processes that create the information. IESO rules define how information is collected, calculated, and published. IESO rules define which market participants are allowed access to what information.

We have been supportive of the IESO's transparency and willingness to work with us to make good information available. Nevertheless, there are significant opportunities for the IESO to publish more information and to make information available to more people. As Ontario competes for investment and jobs in an expanding global information economy, and with increasing policy and market support for investments in digital technology, the IESO's systems should become an increasingly important hub for market data and information.

Ultimately, the promise of the market—in promoting efficiency and efficient demand management—will depend not on the elegance and parsimony of the IESO's dispatch scheduling systems, but on the clarity and relevance of the price signals those systems generate, and customers' ability to see and understand those prices and to incorporate them into everyday decisions.

For more information:

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