

To: IESO Stakeholder Engagement
From: Brian Bell, OPG
Date: May 27, 2008
Subject: OPG Comments on Use of Peak vs Average Forecast Demand.

OPG submits the following comments regarding the analysis of using an average demand forecast in pre-dispatch.

OPG appreciates the IESO's efforts in analyzing the impact on economic efficiency and reliability of using average forecast demand in pre-dispatch scheduling instead of peak and offers the following comments:

1. OPG supports the use of average forecast demand in as many hours as possible while maintaining acceptable levels of reliability.
2. While preferring use of average demand forecast in all hours, OPG accepts the use of peak demand in those hours where absolutely required for reliability purposes.
3. The criteria used to assess whether peak demand is required for reliability requirements should be well stakeholdered, documented and implemented in a transparent fashion such that participants will be able to view and understand why the peak-demand hours were selected.
4. Every effort should be made to adopt use of average demand forecast in off-peak hours in order to minimize the problems associated with surplus baseload generation. The recent Operability Report anticipates that surplus baseload generation challenges will increase as the relative portion of non-dispatchable supply increases with increased wind and new generation with large unit minimums. Using average demand forecast should help with these problems to some extent by avoiding the unnecessary scheduling of imports.
5. The report provided the efficiency impact of moving to average in both on and off-peak time periods. It would be helpful to also have the impact on average annual price net of intertie response and global adjustment provided for on-peak hours, off-peak hours and all hours. The all hour results will indicate the value of inefficiencies and how much wealth has been allocated to consumers since the decision to switch to peak forecast demand was made in the early months of the market without stakeholder discussion.
6. The IESO should investigate the longer term or dynamic efficiency impacts associated with use of average demand. The small increase in real-time energy price would improve the ability of the market to rationalize new investment. This would enhance the value of the market by reducing the requirement for higher Global Adjustment payments.
7. A move to average forecast demand will help converge the predispatch and real-time price. This improvement in price fidelity may help consumer, supplier and trading market participants make better decisions in advance of real-time dispatch as they gain more confidence in the predispatch price signal. These responses may not have been considered in the estimated impact on HOEP. For example, if generators were to start earlier during the morning ramp-up in response to higher real-time prices, this would somewhat moderate the price increase.