

Issue #9: Peak versus Average – Stakeholder Written Comments and IESO Responses

MPWG 50 – June 5, 2008



- Review of stakeholder written feedback
 - OPG
 - Bruce Power
- IESO responses to stakeholder comments
- Review of plan to address public policy issue re: criteria for trade-off between efficiency gains and wealth re-allocation

OPG Comments

- OPG supports the use of average demand forecast in as many hours as possible, subject to maintaining acceptable levels of reliability
- OPG prefers the use of average demand forecast in all hours but accepts the use of peak where required for reliability reasons
- Average demand forecast should be used in off-peak hours to minimize problems associated with excess baseload generation

IESO Response

- From a reliability perspective, the IESO would be willing to use an average demand forecast in all hours except those hours where demand is increasing significantly

OPG Comment

- Criteria to assess whether peak demand is required for reliability reasons should be stakeholdered, documented and implemented in a transparent fashion

IESO Response

- IESO will publish the criteria for stakeholder feedback
 - Requiring the use of peak for reliability reasons is an IESO decision
- Implementation details will be transparent

OPG Comment

- Would be helpful to report the impact on average annual price for off-peak and all hours

IESO Response

| Scenario | Change in Annual Average HOEP (\$/MWh) | Change in Average Effective ¹ HOEP (\$/MWh) |
|--|--|--|
| Use average in all hours except significant ramp up hours ² | 0.72 | 0.14 |
| Use average in off peak hours only (off peak hours: HE 1-6, 23,24) | 0.27 | 0.05 |
| Use average in all hours, including significant ramp up hours | 1.29 | 0.26 |

¹Effective HOEP includes the impact of global adjustment and OPG rebate.

²Significant ramp up hours assumed to be hours 6-9 and 16-19.

OPG Comment

- IESO should investigate the longer term or dynamic efficiency impacts
 - Small increase in real-time energy price would improve the market's ability to rationalize new investment which would reduce the requirement for higher global adjustment payments

IESO Response

- Agreed that there are likely positive dynamic efficiency impacts
 - Directionally, no change in analysis results, i.e. efficiency gains expected to remain positive in all hours
- One of the goals of the upcoming discussions on the broader policy issue is to provide greater clarity on the longer term dynamic efficiencies

OPG Comment

- A move to average forecast demand will help converge pre-dispatch and real-time price
 - These responses may not have been considered in estimated HOEP impact

IESO Response

- Pre-dispatch and real-time price convergence was mentioned in the report as an un-quantified benefit
- Changes in offers/bids of generators, imports, dispatchable loads were not considered in estimated HOEP impact
 - Limitation of the simulation tool
 - IESO unable to anticipate how offers would change

Bruce Power Comment

- Reported improvement in market efficiency is understated
 - Analysis did not include impact on commitment of Ontario generators

IESO Response

- IESO acknowledges there would likely be additional efficiencies
 - IESO unable to quantify these efficiencies
 - 24-hr optimization would capture this impact
 - Directionally, results of analysis wouldn't change

Bruce Power Comments

- Using average would reduce Surplus Baseload Generation (SBG) events
- IESO operational review of IPSP anticipates increase in SBG
- Requests MPWG to open new issue to investigate use of “lower than average” forecast in off-peak hours when SBG expected

IESO Response

- IESO agrees that using average would reduce SBG
 - However, main driver for the initiative is to improve economic efficiencies
- SBG is an operational issue, not an MPWG issue
 - The IESO will continuously monitor IPSP implementation and its impact on SBG and investigate other mitigation measures, e.g. availability of embedded generation for dispatch

Bruce Power Recommendation

- Prefers the use of average demand forecast in all hours but supports the use of average in all off peak hours and when real-time supply cushion $>5\%$
- Requests the IESO to review the use of average in six months to assess impacts on reliability

IESO Response

- IESO would report back on the reliability impacts of using average six months after implementation

- IESO will consult with stakeholders (through MPWG and SAC) on the criteria for trading off efficiency gains and wealth re-allocation
- IESO recommendation on Issue 9: Peak versus Average by end of 2008