

Market Pricing Working Group Issue 9: Peak vs Average PD Demand Forecast – Response to Stakeholder Comments



1. Reliability Concerns/Benefits to Consumers

This change proposes to generate market efficiencies while increasing prices and offering no improvement in reliability. Actually, there will be degradation in reliability. There is absolutely no benefit to consumers. (The source of funding)

IESO Response:

The IESO believes there is no adverse impact on reliability of the proposal to use the average forecast only in hours where:

- the demand is not increasing significantly or
- when supply cushion is forecast to be above 5% or
- when the IESO does not identify a reliability problem.

The cost-benefit analysis supporting the proposal shows the efficiency improvements result in a net benefit to Ontario. However, as noted in the IESO report to MPWG:

“... efficiency is typically not the sole criterion for public policy decision; analysis of who gains and who loses can be critical to the final decision. In the IESO-administered markets, stakeholder impacts, particularly the impact on the province’s consumers would be considered and factored into the IESO’s final recommendation to the Board.

Prior to making a recommendation to the IESO Board, the IESO will consult with stakeholders on the appropriate criteria for trading off efficiency gains and wealth transfers. These discussions would involve the Market Pricing Working Group and the Stakeholder Advisory Committee. “¹

2. Base Case Data is no longer valid

The data used for the IESO analysis was from periods in 2006. Recent announcements from OPG’s shareholder regarding coal phase-out plans and follow up conversations with OPG indicate the energy-offering behaviour from OPG’s coal fleet will change dramatically. Any recommendations from this study that use bidding information that is no longer used after January 1, 2009 is inappropriate. The analysis should be deferred until the effect of the changing coal fleet has been realized.

IESO Response:

The IESO is assessing the impact of the announced off-coal program on the analysis supporting the proposal to use average demand forecast in pre-dispatch. The IESO expects to complete that assessment by October 2008.

¹ Pages 10-11 from IESO report, located on IESO public web site at following link:
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20080516-Item2-Issue9.pdf

3. Neighbouring RTO's use of Peak Demand for Forecasting

IESO presentation indicated that ALL neighbouring deregulated jurisdictions use Peak Demand for forecasting purposes. The IESO should not deviate from this methodology.

IESO Response:

Due to the significant differences between the Ontario market and the neighbouring deregulated jurisdictions (e.g. day-ahead market, pricing methodology), the IESO believes that the fact that those markets do something in a certain way, while a consideration, is not sufficient reason for Ontario to do likewise. The analysis conducted indicates that the use of the average demand forecast would improve Ontario market efficiency. It is on this basis: that it is good for Ontario; that changes to the market should be made.

4. Emergency Imports

IESO has shown there will be a negligible likelihood of increased emergency imports due to use of average load forecasting. Do future coal restrictions impact or change this determination? Will this have an adverse effect on reliability?

IESO Response:

In its operability assessment of the Integrated Power System Plan (IPSP), the IESO "concluded that it provides sufficient flexibility to meet future system needs. Current market mechanisms and control actions will allow the IESO to reliably operate the system described in the IPSP."²

The IESO will continue to assess the operability and reliability implications of the evolving supply and take action as required to maintain reliability.

5. Using Average Demand During Selected Hours

Higher resulting prices during off-peak hours would discourage load shifting by decreasing On-Peak/Off-Peak spreads. This does not fit into Ontario's conservation culture.

IESO Response:

The IESO has asked the Ontario Power Authority (OPA) whether or not they have any concerns with the proposed use of the average demand forecast in off-peak hours and resulting impact on conservation and demand response programs.

² Page 1 of the IESO Operability Review of OPA's Integrated Power System Plan, which can be found on the IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/ircp/IESO-Operability_Review_of_IPSP.pdf

6. Benefits

From a Market Participant perspective, care should be taken to ensure one or a few consumers do not suffer more harm than the entire market will benefit.

IESO Response:

The efficiency analysis shows a net positive benefit to Ontario of the proposed change, meaning that the benefits are greater than the costs. The IESO recognizes that the impacts on individuals or specific sectors within the market need to be factored into a decision of this nature. This issue is part of the public policy discussion initiative regarding the trade-off between efficiency improvements and wealth transfers.