

Remarks Regarding IESO Mission and Vision
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1. Preamble

The role of the IESO in Ontario's electricity market is in one sense very clear; that of the market operator. The role that the IESO may be able to play in advancing environmental performance, facilitating market mechanisms to achieve conservation objectives or intervening in ways that mitigate price spikes and improve economic efficiency are not at all clear. It seems the IESO is primarily interested in acting as a passive relay matching supply to demand, with no active efforts to assist in achieving the Province's goals around environmental or energy efficiency performance. I am not suggesting that there should be any duplication of effort between the IESO and other organizations, but given the lack of a comprehensive energy vision for Ontario, particularly with respect to energy efficiency, important program elements run the risk of falling through that cracks. To date the IESO SAC has not been provided with any indication of how the OPA programming for example complements or obviates IESO's role in this regard.

The remarks below need to be placed in the context of what may be the single greatest weakness in Ontario's nascent electricity market, that is distributed accountability. By this I mean dividing authority, accountability and resources across a half dozen government entities without an articulated cohesive vision. This makes it very difficult for stakeholders to participate effectively and one must operate under the assumption that non-vital market activities are simply not going to take place without explicit effort and emphasis, as is generally the case when market forces are the driving principle.

Reading the IESO Mission and Vision one is left with the impression that the IESO role is much greater and more influential than is likely the case. There appears to be inconsistency in the IESO as a "neutral" market administrator versus an active promoter of markets, competition and even public benefits within Ontario's electricity system. The vision and mission statements present a more significant role than the program operations (and IESO SAC discussions) seem to suggest. One may even question why the IESO requires a vision and mission developed separately from other public entities in Ontario, particularly if the IESO's mission is to "administer" or "operate" the market. Should it not be simply to "administer the market consistent with Ontario's electricity policies and priorities?" Perhaps it is to manage the market, or develop the market, or to facilitate the on-going design and development of the market based on participant feedback?

2. Vision

From an environmental perspective, strong economies are generally correlated with strong environmental performance. Reliability is of course important for businesses and the public alike. And a competitive electricity market can be advantageous in delivering environmental performance, assuming the appropriate market mechanisms are introduced

to facilitate this, which in Ontario they have not. The IESO vision focuses narrowly on the economic interests of the market and neglects, even in the qualifying statement, to reference a vision of environmental quality. Public polling regularly places environmental quality higher than cost, reliability or certainly competition. The vision is therefore limited to an economic perspective not a broader perspective that the public would likely endorse.

3. Mission

The Mission notes acting in the interests of the people of Ontario with the public good as the “principal interest.” If this is the case, then the IESO programming and primary function is inconsistent with how most of Ontario’s public would likely define public good. To be clear I am not suggesting all organizations need to have the public good as a primary concern. The question I have for the IESO is whether, as a market operator, dealing primarily with large industrial and commercial interests, referencing “public good” is a reasonable expectation. This means the organization either includes “public good” in the mission and delivers services consistent with the sentiment, or does not reference “public good.” I prefer the idea of including “public good” and delivering on the mission.

The IESO, one would imagine, has a vested interest in mobilizing market forces to first and foremost encourage demand reduction prior to dispatching supply, particularly acquiring contaminant-laden supply from US coal-fired plants. This seems to be the Province’s priority, but without any explicit reference to this in the IESO mission one is left wondering whether the IESO is activating its responsibility to deliver on the public good as defined by the Province, where practicable.

The mission also mentions “sustainable electricity service” which sounds like a reference to reliability but in the descriptor is referred to as “environmental responsibility of the electricity service.” Without the descriptor the terminology is odd at best and potentially misleading. Even altering the order so that “sustainable” is first or second in the sentence would improve comprehension. Unrelated to that is the lack of clarity regarding the phrase “electricity service.” This phrase is more commonly used to describe the public provision of electricity which is perhaps an accurate reflection of Ontario’s market today, but may not be an accurate projection for the IESO Mission and Vision. “System” may be a more appropriate term in that it also implies some responsibility with respect to demand and supply options.

4. Key Concerns

4.1 Overview

Electricity production contributes significantly to environmental and health damage in Ontario. This is well known and most market participants are taking measures to mitigate damages to the extent they can. There is increasing recognition and acceptance that the market place provides some of the most powerful tools to improve environmental

performance through market signals. The IESO has a unique role in being the entity that operates Ontario's electricity market and is therefore the sole organization with the jurisdiction and functional capacity to best implement a particular element of market-based demand management, namely peak demand response programs.

4.2 Demand Response

When the IESO renamed demand response to “Emergency” demand response, it sent a signal to the energy management community that demand management and specifically demand response were no longer serious elements of short-term electricity planning in Ontario. A critically important mechanism that can be used effectively throughout the year to reduce imports, reduce peak load, manage supply and improve reliability has been relegated to what will likely be a rarely implemented emergency mechanism. This is a mechanism that no other entity in Ontario has the authority or functional capacity to implement, disadvantaging Ontario relative to other jurisdictions that appreciate the economic and environmental benefits it accrues to the public. Without an attractive environment in Ontario in this regard, market entrepreneurs will be less likely to invest in technologies and infrastructure to aggregate or manage demand response.

The IESO should not be a delivery agent for wide-ranging demand management in Ontario, but at the same time, the IESO is best-placed to intervene strategically in the short-term market and this should be used as an added-value service.

4.3 Market Information

One of the primary challenges in relying on markets to deliver environmental and public health benefits is the lack of information to assist consumers in making wise market choices. Ontario's “full” competitive electricity market was in the process of developing a consumer labeling mechanism that would provide all consumers (who chose an alternative) to receive information on the supply mix and environmental attributes of their particular supplier. The IESO (IMO) was to produce this information since they had access to all of the supply contracts. This would have made Ontario a leader in the provision of consumer information. Consumers no longer have any information of this nature to assist in making informed electricity choices.

With the disaggregation of electricity planning and management in Ontario, there is no institutional capacity or focus on data gathering and management. As a result demand forecasting has been dramatically impaired making supply planning haphazard, leading to a default tendency of over-estimating demand (as has been the history in Ontario and other jurisdictions). Without accurate information on demand, it is difficult to imagine how the IESO (and more particularly other entities in Ontario) can manage supply. The IESO seems to have access to important information that could be analysed and shared more broadly to assist the market-place in responding with innovative market solutions.

The public also lacks information, infrastructure and tools to manage their electricity demand. Anything the IESO can logically undertake within its purview to provide

information or facilitate customers' ability to market activities. Customers need smart meters, time-of use rates and programs that provide meaningful market incentives to encourage and reward behaviour. Comprehensive, systematic market-based demand programs are absent in Ontario, the IESO may have a role in supporting or facilitating the demand side of Ontario's electricity market, and this role should be more clearly identified to determine appropriateness and feasibility.

4.4 Price

There are over 4 million electricity customers in Ontario. There is a small number of very large customers that have valid and important concerns with respect to electricity prices. There is also a number of electricity consumers in economic circumstances with valid and important concerns regarding electricity prices. For most of Ontario's customers electricity prices are not an important issue, as long as there is reasonable predictability (i.e. no dramatic fluctuations) and other public benefits are demonstrated, such as reducing emissions. Consumers may have more serious concerns regarding the lengthy list of costs associated with electricity, other than the electricity itself. For example, I live in a three bedroom house in Toronto with a family of four, my electricity bill, for a one month period last year included \$16.00 for the electricity, \$24.00 to have it delivered, \$2.30 for regulatory charges, \$2.20 for the nuclear debt, and \$3.15 in taxes. Only one-third of my bill is the actual electricity. Therefore even if the cost of the electricity generation is 25% greater, my bill should only increase by 8% or \$4.00 per month, less than a daily return trip on the subway. My point is therefore that, outside of very large customers or those without adequate means, for the vast majority of Ontario's electricity customers price is not a critical consideration and certainly falls well below environmental performance and reliability as a priority. Moreover, demand programs that reduce use can more than offset the cost of cleaner electricity supply.

The true cost (full cost) of electricity generation, including cost overruns, facility decommissioning, waste management and disposal costs must be incorporated into electricity prices. Ontarians do not want more debt charges on their bills or hidden taxpayer subsidies.

5. Summary

In summary, Ontario's electricity market lacks concerted efforts to use market forces to manage demand and facilitate environmental performance. The IESO, as the operator of the electricity market, has a unique and important role to play in ensuring the efficient functioning of the market, with demand management as a priority. It does not appear that this role is being contemplated based on the vision, mission and activities of the IESO. There needs to be a clear description of the IESO's mission contained within a cohesive vision for Ontario's electricity market. The vision needs to be consistent across the IESO, OPA and other public agencies in order for the IESO to "act in the interests of the people of Ontario."