

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: August 26, 2009

Subject: **Embedded and Renewable Generation (SE-57)**

Information Item

Background

The IESO continues to have discussions with stakeholders on the integration of embedded and renewable generation into the reliable operation of the grid. The IESO's intent is to maximize this integration with the most cost-effective solutions, providing value-added benefit to the electricity customers of Ontario. The scope of this initiative includes:

- Centralized forecasting for variable generation (wind and solar);
- Minimum Load Management;
- Standards Development; and
- Telemetry and Visibility

On August 11th the IESO met with stakeholders to discuss centralized forecasting for variable generators and minimum load management.

Centralized Forecasting for Variable Generators

The IESO advised stakeholders that it would implement centralized forecasting for variable generation. The forecasting service will be procured from a third party. Initially, the focus will be on forecasting wind generation but the IESO will also look to incorporate solar generation forecasting.

The IESO proposed that the cost of the forecasting service be recovered through a generator-funded model. Several possible generator-funded models were presented to stakeholders and stakeholders, in particular variable generators, were encouraged to provide written submissions indicating a preferred model. Prior to the meeting, a stakeholder provided a written submission that questioned the logic of a generator-funded model. The submission suggested a load-funded model on the basis that the benefits of centralized wind forecasting were primary social and thus the associated costs should be socialized. At the August 11th meeting, stakeholders appeared to accept the IESO response

that generators existing costs already include the costs of meeting their forecasting requirements under the existing decentralized regime. Under a centralized model, those current costs would be replaced by the costs of the centralized service. In short, there seemed to be little justification for transferring those costs to consumers.

Minimum Load Management

The IESO advised stakeholders it continues to see the market as the most efficient means to manage periods of SBG. The challenge in Ontario is that many generators hold contracts that lack incentives to respond to market prices. Rather than create new procedures for curtailing generators that would distort or interfere with the proper functioning of the market, the IESO advised stakeholders it would work with the contract holders such as the OPA and OEFC to create market-based incentives for contracted generation. For example, the proposed FiT contracts include a market incentive.

The IESO also recommended the following actions to mitigate periods of SBG:

- Use average demand forecast during periods of low demand
- Delay commissioning units during periods of low demand (only if it does not impact long-term reliability concerns)
- Deny unit synchronization associated with real-time and day-ahead guarantees during periods of low demand

Next Steps

The IESO awaits written feedback on the items discussed above. The deadline for written feedback is late August 2009. Stakeholders were advised that the next meeting would be set once sufficient material was available for discussion.