



9 August 2006

Mr. Ken Kozlik
Director, Market Evolution
Independent Electricity System Operator
P. O. Box 4474, Station A
655 Bay Street
Toronto, Ontario M5G 2K4

Re: Ramp Rate

Dear Ken:

I am writing to offer comments addressing the Association of Power Producers of Ontario report, Adopting a Ramp Charge to Improve Performance in the Ontario Market ("the APPrO Report"). The report, and other submissions by APPrO and some other market participants, argue for a new mechanism to provide additional compensation for ramping services provided by generators.

The APPrO Report makes two basic points: (1) the amount of dispatch has increased since market opening and (2) ramping has an associated cost that cannot be recovered from the market as it is currently structured. The analysis provides some illustrative ramping costs for selected generation stations.

While the APPrO Report argues that generators cannot include ramp cost in their bids, no evidence is produced to suggest that generators are not recovering all their costs and making acceptable returns. To the contrary, the report provides evidence that short term marginal ramping costs are well known, which would suggest they could be included in bids.

The APPrO Report shows that dispatch has increased since market opening. While we understand that some elements of market design may increase dispatch frequency, there are other factors the APPrO Report does not discuss. For example, dispatch driven by price competition will naturally be different than that driven by a monopoly seeking total cost minimization. Price competition among generators is a new reality for Ontario's electricity sector; dispatch optimization that considers price and volume offer strategies from competing generators should be expected to produce a less predictable result than the previous sector structure would have produced.

More importantly, a generator with a diversified fleet of generation stations and technologies should be expected to implement an offer strategy for its generation portfolio intended to maximize profit and improve efficiency over time. To subsidize a generator for a result over which it has at least some influence would distort market-based incentives to reduce costs and improve efficiency.

Previously, AMPCO proposed five criteria for any new mechanism. They are repeated here in italics with an assessment of how the APPrO Report addresses them:

1. *Any mechanism should be transparent in sending the correct signals to the market; such a mechanism should not increase uplift, which is opaque in terms of price signals and cannot be hedged.* The APPrO Report proposes a side-payment to generators the cost of which would increase uplift by an estimated \$78 M per year, or about \$0.50 per MWh.
2. *Any mechanism should provide incentives for appropriate market responses.* Since the payment and uplift charges would not be considered in the DSO algorithm, the incentive would be for generators to bid so as to increase the probability of dispatch



- on units where the payment would mitigate or exceed the unit's marginal cost of ramping.
3. *A new mechanism to compensate generation that provides ramping services should not increase revenue to entities that do not provide ramping services.* The proposed payment does not discriminate among generators according to their ramping capability.
 4. *A new mechanism should improve the efficiency of the electricity sector as it currently exists, as opposed to a hypothetical electricity market which may or may not exist in the future.* The proposed payment does nothing to improve dynamic or allocative efficiency under any foreseeable market structure.
 5. *In all cases, the impacts on customers must be assessed and consumer interests must be protected with respect to the price, adequacy, reliability and quality of electricity service.* The APPrO proposal would not change current dispatch patterns or increase reliability, but would simply provide an additional and direct revenue stream to incumbent Ontario generators. It would not be provided to importers. The proposal would transfer wealth from consumers to generators, with no means for consumers to hedge or mitigate these increased costs.

The APPrO proposal satisfies none of these criteria. Moreover, the APPrO Report provides no evidence that generators are being harmed in a way that would justify urgent action of the type proposed.

APPrO is proposing an out-of-market charge that would provide compensation for ramping but no mechanism to improve market efficiency or to reduce dispatch. The APPrO report does not supply evidence of such an urgent and severe problem to justify the implementation of a new out-of-market payment mechanism.

IESO and market participant efforts are best spent on developing enduring and comprehensive solutions to market issues that improve market efficiency to the benefit of all parties. That the IESO should implement a new side payment to generators for ramping services is not such a proposal.

I trust these comments are useful. We look forward to working constructively with you and all the staff at the IESO going forward.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Adam S. White', with a long horizontal flourish extending to the right.

Adam S. White
President