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APPrO

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POWER PRODUCERS
OF ONTARIO

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APPrO Responses to IESO Market Renewal Stakeholder Presentation, April 19th

The April 19th Stakeholder Meeting provided an overview of the engagement and areas for discussion and/or feedback. APPrO's responses are set out below.

APPrO continues to support initiatives aimed at increasing efficiency in the operation and investment in Ontario's electricity market. APPrO would like to constructively engage in the IESO's Market Renewal consultation. However, it is disappointing that the IESO does not appear to be prepared to address some fundamental issues challenging any attempt to have greater reliance on markets to incent decision making.

APPrO is concerned that the IESO is under-estimating the need for a serious reform of its markets. If the intention is for markets to have greater relevance and if generators and others are to have sufficient confidence in the markets both for commercial continuity related to current assets and to guide future investment, then the IESO's reform agenda needs to demonstrate that it will objectively make fact based decisions. Like every other successful market, this will involve checks and balances and independent decision making criteria.

APPrO's responses to specific IESO questions are set out below.

Are our current markets efficient?

- Addressing this matter empirically would require data on the Ontario market's operational efficiency compared to other North American markets. Although participants and the IESO may have anecdotal impressions on how the market is operating, without data, these impressions cannot form the basis of serious consideration. APPrO believes that it is important for the IESO to prepare meaningful research and data on the costs and benefits of a range of efficiency enhancements so that the merits of various options can be considered.

What is the root cause of any inefficiency?

- Empirical research into electricity markets indicate that one of the largest causes of inefficient market outcomes are out of market decisions of system operators. This occurs when system operators take administrative actions as opposed to allowing market prices to rise, or governments intervene to direct outcomes which support particular policies or agendas. This needs to be acknowledged in any serious attempt at renewal.
- Another source of inefficiency is the process to develop and review market rules. The consensus is that there are many potential ways to significantly improve market rules and that market rules require constant adjustments and changes to achieve efficiency. The practice outside of Ontario is to have market rules reviewed by independent agencies to perform this important check and balance. Ontario does not have such a system. The credibility of the IESO's market renewal process would be greatly enhanced if it were to include a role for independent review. The inefficiency in administrative actions is reflected in the development of practices which substitute the preferences of system operators for economic considerations. For example:
 - The IESO recently announced that it will prevent wheeling through the IESO-grid at times of surplus baseload even though there is no evidence that this will enhance efficiency; and
 - Similarly, the IESO put a floor price on exports in the absence of economic evidence that this would increase efficiency.
- The inefficiency resulting from the lack of cost benefit analysis is reflected in the supply of resource requirements that do not meet system needs, including continued conservation investments in time of surplus and the life extension of the Pickering Nuclear Generating Station. If Market Renewal does not change the process by which these decisions are made, then it is hard to be optimistic that it will lead to more efficient outcomes.
- Adding independent oversight over IESO decision making, including the need for cost benefit analysis around significant initiatives, would be a significant improvement to the current regime.

What could be improved?

- APPrO has requested the IESO to consider governance reforms. This is informed by its members' participation in energy markets throughout North America. The IESO could strongly enhance the credibility of this initiative if it addressed the governance challenges in Ontario.

Are proposed changes consistent with the role of electricity markets?

- Ontario is an outlier in North America in its lack of oversight over IESO practices. APPrO recognizes that Ontario is not New York or PJM, and that our constitutional, legal and regulatory systems are quite different from those in the US. Hence, simply importing what appears to work in US markets

without considering and understanding the relationship between US markets and their systems of governance will likely not lead to improvement. However, it is instructive to note that where markets do work in the US, it is in large part because there are stronger independent oversight mechanisms at work, such as FERC, independent market monitors and so forth.

Would changes be enduring, sustainable and meet future needs?

- There is no single enduring and sustainable change. Electricity markets constantly evolve through experience. It is therefore necessary to have a change management process under which market participants have the ability to initiate concerns and have them evaluated by clear criteria in an objective and neutral fashion.

Forms of Engagement

- The success of the process will be directly related to the quality and effort put into stakeholder engagement, but there is no one stakeholder engagement approach to the significant changes entailed in market renewal. APPrO therefore recommend that the full panoply of IESO stakeholder engagement processes be utilized, including a Standing Committee with specific working groups. The specific structure should be clearly understood and approved by market participants before engagement commences.