

IESO MARKET RENEWAL

Please consider the following comments for the development of a simplified and effective market renewal process that will enable reliable, low cost, clean electricity to drive a prosperous and competitive Ontario economy. The process should be designed to enhance the economic welfare of both consumers and suppliers through performance based measures that reward cost effectiveness, reliability, efficiency and continuous improvement.

Competitive Market for Electricity Generation

Competitive supply of electricity should begin at the generation contracting process and include cost, predicted reliability, capacity, energy, emissions, and operating flexibility. The contracts should be performance based, with predicted reliability measured against actual performance.

Generators that can consistently meet or exceed their performance objectives for capacity, energy delivery, ramp rates, etc. should be preferred over those that do not. Forced outages and deratings require the IESO to secure additional resources at additional cost that currently is incurred by all consumers. It is recommended that the IESO evaluate the impact of forced outages and deratings on the market and consider adoption of a quality management approach for generators to minimize these costs, similar to what is done in the manufacturing sector.

Ontario Hourly Pricing

In January 2016, the IESO reported that the weighted wholesale price of electricity (HOEP) for 2015 was 2.36 cents/kWhr. The estimated 2015 Global Adjustment (GA) rate was 7.78 cents/khr. The total cost of power for Class B consumers was 10.14 cents/kWhr. Therefore 80% of the cost of power is fixed through Global Adjustment and HOEP is a small proportion of the cost of energy. Most consumers are unable to respond to short term spikes in HOEP.

Consumers need stability in pricing that will reward them for measures that benefit the electricity system, and toll them for actions that increase cost. Only in the residential sector has pricing been established for peak, mid, and off-peak pricing. When establishing time of use pricing for the commercial and industrial sector, consideration should be given to the competitive environment that manufacturing faces. Furthermore, these industries provide economic and employment opportunities that benefit Ontario residents and the economy. Rates should be established that enable businesses and industrial consumers to thrive and to incent measures that will reduce the cost of operation of the electricity system every day, not just the peak days.

Inter Tie Connections and Export Sales/Purchases

The role of inter tie connections need to be included in the scope of market renewal. The IESO has a fiduciary duty to protect and act in the interests of Ontario consumers when it comes to export sales of electricity.

Traditionally, these ties have enhanced reliable operation of the system. In the future, these connections could provide the opportunity for export sales of clean energy to benefit the Ontario economy and the environment.

At this time, when the Ontario government is considering a carbon cap and trade program for Ontario industries, and with tightening US EPA environmental regulations, there is a dramatic opportunity for Ontario generators and consumers to benefit from the export sale of power to the US. There is a paradox in that export sales of clean energy may marginally increase the carbon footprint in Ontario, however the clean generation would displace US coal-fired generation that has much higher carbon intensity and also smog inducing emissions of SO₂ and NO_x. The overall environmental impact would be positive: a reduction of carbon emissions, and improved air quality in Ontario through a reduction in smog emissions in the US air shed that often drifts over borders into the province.

The clean electricity should command a premium price considering that the purchaser would otherwise need to invest significant capital to retrofit or replace existing generation. The economic impact for Ontario would be an increase in employment in the electricity sector and the benefit of export sales could be used to reduce power costs for all consumers in the province.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Peter Inman', written in a cursive style.

Peter Inman, P. Eng., MBA, CEM
Principal Consultant
Powerful Solutions