



Barbara Ellard
Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1

December 16, 2016

Dear Barbara,

We wish to formally express a few high-level comments to the Independent Electricity System Operator (IESO) regarding our collective thoughts on the IESO's Market Renewal Initiative. On behalf of the majority of generator representatives on the IESO's Market Renewal Working Group (MRWG) (Brookfield Renewable Power, Goreway Power Station, NextEra Energy Canada, Northland Power, and TransCanada Energy Ltd.), Power Advisory LLC has coordinated these comments.

Considering that preliminary results of the draft Market Renewal Benefits Case will be discussed with stakeholders during the December 19, 2016 IESO meeting and planned to be finalized in Q1/2017, we feel these comments are timely.

We are of the general view that Ontario's wholesale electricity market (i.e., IESO-Administered Markets (IAM)) should evolve from its present design. Therefore, in concept we are supportive of the IESO's Market Renewal Initiative and are pleased to be members of the MRWG. Ontario's energy and related policies (e.g., environmental, etc.) along with the resource mix (i.e., substantial uptake in renewables, conservation and demand management, etc.) have dramatically changed since the IAM opened in May 2002, therefore increasingly challenging the effectiveness of the original wholesale market design.

We offer these comments regarding the Market Renewal Initiative for the IESO's consideration and feedback, as suggestions towards making early improvements to this important and impactful initiative.

First, the timeline to finalize the Benefits Case is too fast. Considering that the scope of the Market Renewals Initiative (i.e., energy, operability, capacity, and consideration of contracts) is sufficiently broad and impactful, and covers nearly all aspects of the IAM, we believe more time

is needed to properly develop and consult on the Benefits Case. Therefore, more MRWG and broader stakeholder meetings are needed.

Second, we believe to effectively address the above comment, the IESO should consider expanding the analysis to support the Benefits Case. To date, there has been heavy reliance on analysis involving a review and application of previous IESO studies and studies from other U.S. jurisdictions. We generally support this analysis to filter options for inclusion in the to-be developed Market Renewal Workplan and prioritize plans for further analysis; however, before any final decisions are made we feel updated and Ontario-specific analysis should be carried out.

Third, in order to help drive the second point above, principles to guide the evolution of the IAM that are in-line with Ontario's resource mix, energy and related policies and objectives (e.g., environmental, etc.), and Ontario's market structure and governance, should be developed and agreed to. This will provide directional guidance towards development of the Benefits Case and then the Market Renewal Workplan (which will define the initiatives to evolve the IAM over the next several years). For example, we note that the IESO Board of Directors had previously set out the following seven key guiding principles for market design which were subsequently adhered to upon making changes post market opening: efficiency; fairness; reliability; transparency; robustness; enforceability; and practicality¹. While we are not suggesting to necessarily adopt these guiding principles today (even though on surface they all seem applicable), we believe the IESO should revise these guiding principles to effectively drive the Market Renewal Initiative while ensuring alignment with applicable Ontario Government policy goals and objectives.

Finally, the 'uniqueness' of Ontario's electricity market needs to be more effectively acknowledged and incorporated within the Benefits Case. While it is true that the 'uniqueness' of Ontario's electricity market has been acknowledged within MRWG and stakeholder meetings through some discussion of contracts and regulated rates for generators along with integration of renewable generation, and some of these aspects have been factored into the Benefits Case analysis to date, these other 'unique' Ontario electricity market aspects should be acknowledged and incorporated within the Benefits Case analysis: Ontario's supply mix comprises of significant high quantities of baseload generation (i.e., nuclear, wind, solar, hydro, etc.) which is fairly

¹ Formerly the Independent Electricity Market Operator (IMO) prior to be re-named the IESO – see [Setting Priorities for the Evolution of Market Design](#) (December 20, 2001) for a complete definition and application of the market design guiding principles.

different to other wholesale electricity markets across Canada and the U.S. (i.e., many of these markets have a much higher concentration and share of coal- and gas-fired generation, even within jurisdictions with significant quantities of renewable generation); forthcoming Ontario cap-and-trade program; any regulatory restrictions or other impediments regarding the development and use of fossil fuels for electricity generation and any targets for associated greenhouse gas emissions; lack of entities with obligations to serve Ontario's load (i.e., IESO does not have this explicit obligation, no buy-side entities like Load-Serving Entities exist within Ontario, etc.), therefore limiting market participation; illiquid bilateral contracting that impacts the ability for market participants to hedge associated wholesale market risks and undertake needed capital investments; etc.

In closing, we are supportive of the concept and general objectives of the IESO's Market Renewal Initiative to evolve the IAM from its original design. We do note and acknowledge that the Ministry of Energy is at least conceptually supportive of the initial direction of the IESO's Market Renewal Initiative, as evident by Minister Thibeault's remarks at the Association of Power Producers of Ontario's annual banquet on November 15, 2016 and then at the November 28, 2016 Empire Club of Canada luncheon. By addressing the comments listed above early within the Market Renewal Initiative process, better outcomes will be realized which will help Ontario's electricity ratepayers and IAM market participants, and improve efficiencies within Ontario's wholesale market while maintaining the reliability of Ontario's power system.

We are reviewing the materials that will be discussed at the December 19, 2016 stakeholder meeting and will provide submissions in response to these materials. If you wish to discuss the contents of this letter, we will be pleased to meet at your earliest convenience.

Sincerely and Happy Holidays,



Jason Chee-Aloy
Power Advisory LLC

cc:

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