

March 22, 2017
Independent Electricity System Operator
Stakeholder Engagement

Comments on the Market Renewal Stakeholder Engagement – Draft Benefits Case Report

OPG appreciates the opportunity to submit the following comments on the draft report prepared by Brattle for the IESO entitled “The Future of Ontario’s Electricity Market - A Benefits Case Assessment of the Market Renewal Project” dated March 3, 2017.

OPG is supportive of the Market Renewal Initiative and its objective to improve market efficiencies and yield cost savings for the consumer. We recognize that a high level approach was necessary to compile the benefit -cost analysis as the detailed design is not scheduled to be developed until the next phase. Recognizing this limitation, OPG views this report as a good summary of potential market enhancements and reforms for Ontario; lessons learned and benefits that have been achieved in US jurisdictions; and the potential to apply these design elements to re-design Ontario’s current electricity market to meet the challenges of the future.

Specifically, OPG strongly supports leveraging and optimizing Ontario’s existing assets as much as possible to lower the costs to the consumer. Brattle reinforces this view as they note “the current market design is unable to fully utilize these resources” and “improving utilization of existing flexible resources may reduce need for new investment”. Changes to the market structure, such as, developing a financially binding day-ahead market and the co-optimization of energy and ancillary service products may unleash greater flexibilities and operating efficiencies for hydroelectric facilities.

Both changes to the market structure and appropriate market incentives for all products need to be in place to maximize benefit opportunities. With this in mind, OPG would like to address a statement by Brattle regarding the responsiveness of its regulated assets to market price signals. OPG’s hydroelectric regulated assets are offered to maximize energy production during high priced hours to provide ratepayer benefits, while respecting safety, equipment, applicable law requirements and complying with IESO market rules. The IESO corroborates that regulatory assets follow market price signals as in its submission as part of OPG’s 2014-2015 Payment Amounts filing (EB-2013-0321) they state: “The IESO supports maintaining an incentive mechanism for the previously regulated hydroelectric facilities and also applying an incentive to the newly regulated facilities as proposed by OPG. The current HIM”

(Hydroelectric Incentive Mechanism) "has encouraged appropriate use of the previously regulated hydroelectric facilities to supply energy in response to market price signals."

OPG submits that going forward, a revised regulated payments structure, subject to the approval of the Ontario Energy Board, may need to be developed to reflect the new market design changes implemented as part of Market Renewal. Once the market design framework is known, OPG is willing to discuss potential changes that may be required to the regulated payments structure to increase the efficiency of the market and benefits to the ratepayer. Further, on a minor note, OPG's regulated assets total about 13,000 MWs not 10,300 MWs.

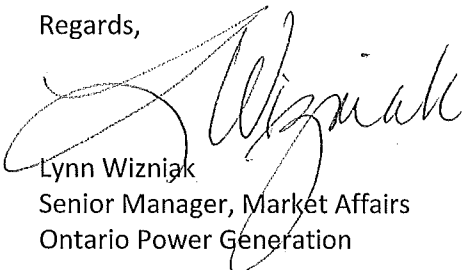
In addition we reinforce Brattle's statement that "Market Renewal could incorporate modern software enhancements that are uniquely valuable in Ontario's contextsuch as advanced modeling of cascading hydro systems, pumped storage, or optimized gas combined cycle modeling." OPG encourages the IESO to purchase a software platform that has the ability to capture Ontario's unique resources to achieve even greater benefits from Market Renewal.

OPG agrees with Brattle that the implementation risks of such a large project need to be proactively managed with stakeholders. Brattle views the following as significant risks: "(a) cross-system and cross-vendor system integration, (b) interactions with existing contracts, (c) mid-stream or late-stage scope and design changes, and (d) stakeholder readiness and buy-in." The IESO has stated they plan to discuss some of these issues early in the process which is promising; however, the remaining also need to be addressed upfront in order to develop appropriate mitigation plans.

Lastly, as the IESO is aware, the scope and impact to the Ontario electricity sector of this project is much greater than past market re-design initiatives. For this reason, OPG would like to reinforce that it is important to manage this initiative as a project with a project management plan; schedule; tracking of performance measures; risk identification and mitigation plans; and checkpoints or off ramps. These tools will assist in demonstrating and achieving project success not only from an oversight perspective but also by improving transparency and buy-in from all stakeholders.

OPG looks forward to working with the IESO and other stakeholders to advance the Market Renewal Initiative.

Regards,



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