

November 17, 2022

Markets Surveillance Panel (“MSP”)
Ontario Energy Board

Submitted via email

Markets Committee of the
Independent Electricity System Operator (“IESO”)

Submitted via email

Re: Market Surveillance Panel Letter of July 26, 2022, on Recommendation to Reconsider Existing Exemption for Dispatchable Loads

This is further to our review of the MSP’s letter of July 26, 2022 to the Markets Committee of the IESO Board of Directors and the corresponding response of the IESO dated November 3, 2022.

The need for a clear and unambiguous IESO exemption program:

In the IESO’s response, it is evident to ArcelorMittal Dofasco (“AMD”) that the IESO clearly understands the significant value of electric arc furnaces (“EAFs”) providing operating reserve (“OR”) in Ontario’s electricity market. We agree with the necessity for IESO to offer an unambiguous exemption that clearly captures and documents how EAFs have continued to provide OR to the IESO over the past 18 years, which reflects their respective operating realities. AMD’s assessment is that there was a failure by the IESO to correctly document its representations and instructions given to EAFs with respect to how the IESO wanted and encouraged exempt dispatchable loads to participate in the OR market. The IESO’s error has significantly prejudiced AMD in a manner that is neither fair nor equitable and has directly contributed to MSP’s mistaken interpretation that AMD’s exemption did not apply to OR offers.

As a result, AMD stopped all participation in Ontario’s OR market on June 28, 2022, after 18 years of participation, due to the fact that AMD was made aware that the IESO changed its interpretation of AMD’s exemption. Once it became clear to AMD that such interpretation required changes in how AMD could participate, it rendered AMD’s continued participation untenable.

IESO terms of its proposed reconsidered exemption:

AMD participated in a consultation process with the IESO regarding the terms of the proposed reconsidered exemption. Both parties are aligned on the form and content of the proposed reconsidered exemption, except for one issue. The IESO proposes to compensate EAFs for their respective OR contribution based on a six-month average of each EAFs load. AMD believes that it should be compensated for the average consumption while running, excluding the time periods when EAFs are operating with a 0 MW load, because the very nature of a cyclical load like an EAF dictates that it may ramp up to full power at any moment, which represents the potential for a significant load. The IESO’s ability to request AMD to stay down, when already down, provides worth to the IESO with valuable

control, which it has failed to recognize in its calculation. The IESO's response even acknowledges this when it stated "(h)owever, each facility will stay at 0 MW when directed to; this helps the IESO manage potentially difficult situations on the power system."

Conclusion:

While AMD is generally supportive of the IESO's reconsidered exemption given the unexpected and novel exemption interpretations advanced by IESO and MSP officials (none of whom were directly involved in the development of the original exemption program in the early 2000s), AMD's future participation in the OR market is contingent upon:

- (i) AMD's satisfaction with the method used to calculate OR in the reconsidered exemption; and

AMD's belief that the IESO is a good faith partner that acknowledges the prejudice caused to AMD over the recent ambiguity of its existing exemption and so that AMD and the IESO may once again partner together for provision of OR.

It would seem to AMD that the IESO would be interested in maintaining AMD as an OR market participant considering that AMD is planning to construct a second EAF, which is to be completed by the end of 2028. If AMD's second EAF was operational today, both of AMD's EAFs alone will draw a combined 370MW, which represents an estimated ~20% of the quick responding spare energy available to the IESO in real-time. Without AMD's participation, the IESO will lose the ability to direct the operation of these loads during times of system need, reducing the ability of the IESO to balance supply and demand in response to unforeseen events on the IESO-controlled grid.

Nonetheless, AMD would appreciate a broader discussion with the IESO in order to address our concerns and we are hopeful that we will once again be able to participate in the OR market founded upon stable, predictable and commonly understood rules.

Respectively,

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