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Market Surveillance Panel | Comité de surveillance du marché

BY E-MAIL

July 26, 2022

To: Markets Committee of the IESO Board of Directors, in their capacity as the Exemption Panel
Independent Electricity System Operator
1600-120 Adelaide Street West
Toronto, ON M5H 1T1

RE: IESO Recommendations to Reconsider Existing Exemptions for Dispatchable Loads

The Market Surveillance Panel (MSP)¹ understands that the Markets Committee of the IESO Board of Directors has been assigned as the panel (Exemption Panel) to reconsider existing exemptions for ArcelorMittal Dofasco Inc. (Dofasco), Gerdau Long Steel (Gerdau), and Ivaco Rolling Mills (Ivaco) (collectively, the Exempt Loads) from certain obligations and standards required by the market rules. The exemption reconsideration process for these Exempt Loads was initiated in 2021 by IESO staff. In June of 2022 the IESO published documents with their recommendations relating to these reconsiderations. These documents state that the IESO staff requested these reconsiderations due to a change in circumstances, one of which, according to the documents, is the MSP report that discussed inaccessible operating reserve. Specifically, the documents state that “[I]n order to effectively address the MSPs recommendations...it is necessary to reconsider the existing exemptions”.

The MSP is writing to the Exemption Panel, with a copy to the IESO, the Ontario Energy Board (OEB) and the Exempt Loads, to ensure that the MSP's views on the effectiveness

¹ The MSP has a mandate to monitor, evaluate and analyze activities related to the IESO-administered markets and the conduct of market participants with a view to identifying, among other things, aspects of the underlying design and structure of the IESO-administered markets that are inconsistent with the efficient and fair operation of a competitive market.

of the reconsidered exemptions at addressing the MSP's concerns are clear, timely and transparent. The MSP intends to post this letter on the OEB website and encourages the IESO to post the letter on their website.

In this letter, we provide our understanding of the contextual background for the proposed reconsidered exemptions and present the MSP's observations on the IESO staff recommendations on these exemptions as they relate to the efficient and fair operation of a competitive market.

While the MSP understands that exemptions may be required in certain circumstances, they should be developed based on appropriate and robust analysis and with regard to viable alternative approaches. In short, the MSP believes that IESO staff have not provided sufficient evidence to support their recommendations for these exemptions. We describe the areas that are at issue and that would benefit from further evidence.

The Existing Exemptions

Exemptions are addressed in section 36.1 of the *Electricity Act, 1998* (Act), and the IESO's *Market Manual 2: Administration - Part 2.2: Exemption Application and Assessment* provides details related to the process and criteria for assessing the merits of exemption applications, including exemption reconsiderations.

In 2002, a panel (referred to at the time as the "Independent Panel") considered Ivaco's application for exemption from the requirement to comply with dispatch instructions for the real-time energy market and from the requirement to notify the IESO if there is an expected material difference in operations from those dispatch instructions. IESO staff recommended² approval of the exemption, under certain conditions on the bidding and operating strategies of Ivaco's facilities during the term of the exemption. These conditions are listed in the attached Appendix A.

The exemption panel granted the exemptions on the conditions recommended by IESO staff, concluding that they "provide a least-cost means of allowing [Ivaco] to become dispatchable and to participate in the market for Operating Reserve."³

² "IMO Staff Recommendation to Panel on Exemption Application (General)", IESO, March 11, 2002, http://www.ieso.ca/Documents/exemptions/ex_011164_rec.pdf. Also see "Waiver Application (General Process)", IESO, October 11, 2001, http://www.ieso.ca/Documents/exemptions/ex_011164.pdf and "Part 3: Submissions in Support of Waiver Application", IESO, March 8, 2002, http://www.ieso.ca/Documents/exemptions/ex_011164_att.pdf.

³ Decision of the Independent Panel -Application No. 01-1146," IESO, June 17, 2002, http://www.ieso.ca/Documents/exemptions/ex_PanelDecision_011164_02Jun06.pdf.

In 2004, Gerdau and Dofasco applied for exemptions similar to those granted to Ivaco.⁴ The applications included a condition to submit operating reserve offer quantities equal to average consumption of the process when running, not including zero consumption time periods; a less restrictive requirement than the Ivaco condition which requires the average to include zero consumption periods. IESO staff considered operating reserve to be outside the scope of the recommendation and a matter best addressed through the facility registration process. The exemption panel granted the exemptions for participation by these Exempt Loads in the energy market on the conditions recommended by IESO staff, which did not include exemptions for operating reserve offers as requested by these two Exempt Loads. As such, when they offer operating reserve, they are not exempt from compliance in the way that Ivaco is.

The MSP's Monitoring Report and Later Developments

In its Monitoring Report released in May 2017, the MSP reported that during the period January 2010 to April 2016, the IESO scheduled operating reserve from dispatchable loads when their facilities were incapable of providing the stand-by energy reduction required under the market rules, and per North American Electric Reliability Corporation (NERC) and Northeast Power Coordinating Council (NPCC) reliability standards. The MSP estimated that dispatchable loads received approximately \$12 million in inappropriate stand-by payments during the identified period for providing reserve that was unavailable for energy activation, noting that these instances were of concern not only for the payments themselves but for the corresponding reliability issues. The MSP recommended that the IESO ensure that dispatchable loads are compensated only for the amount of operating reserve that they were capable of providing in real-time and, more fundamentally, that the IESO should explore options for ensuring that unavailable operating reserve is not scheduled in the first place.

Since May 2017, the IESO has continued to schedule unavailable operating reserve from dispatchable loads and dispatchable loads have continued to receive inappropriate stand-by payments, although the IESO has begun to recover some of the payments as allowed by the market rules. The IESO has recently taken additional actions that are relevant to the MSP's concerns. First, the IESO has proposed a market rule amendment to add a settlement charge (called the "non-accessibility charge") to automatically recover

⁴ "Gerdau Exemption Application, ID#: 1304", IESO, March 31, 2004, http://www.ieso.ca/Documents/exemptions/ex_1304.pdf ;

"Gerdau Exemption Application, ID#: 1305", IESO, March 31, 2004, https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/ex_1305.ashx.

"Dofasco Exemption Application, ID#: 1308", IESO, April 30, 2004, https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/ex_1308.ashx;

"Part 4 – Submissions in Support of Exemption Application", IESO, 2004, [https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/ex_1308 Att1.ashx](https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/ex_1308_Att1.ashx).

operating reserve payments from market participants where the market participant fails to maintain adequate unused generation (or load reduction) capacity during all intervals in which they were scheduled for operating reserve.⁵ The IESO expects that this rule amendment will make the process for recovery more efficient than the current process. Second, the IESO commenced a process to reconsider the exemptions provided to the Exempt Loads, which is the focus of this letter.⁶

IESO Staff Recommendations for Reconsideration of Exemptions

On June 10, 2022, the IESO posted “IESO Staff Recommendations to Panel on Exemption Reconsideration” in relation to the existing exemptions for Ivaco, Gerdau and Dofasco. These documents cite the MSP’s compensation and reliability concerns regarding unavailable operating reserve from dispatchable loads as one of the causes for reconsideration. Attached as Appendix B is Table 1, which presents the main conditions for exemption proposed by IESO staff in relation to the reconsideration, alongside the conditions that apply under the existing exemptions.

MSP Observations

The MSP offers the following observations on IESO staff’s recommendations.

First, the IESO staff recommendations do not clearly explain why the existing exemptions are deficient or unworkable. The existing exemptions appear to be designed to specifically limit the amount of unavailable operating reserve scheduled from these dispatchable loads and hence the associated inappropriate payments. Specifically, under the 2002 and 2004 exemptions, the dispatchable loads are required to load to full or zero consumption in response to an IESO energy dispatch instruction within 5 minutes, but at most within 15 minutes per their normal consumption pattern. If the dispatchable loads are not capable of responding to dispatch instructions, they are required to notify the IESO so that corrective action can be taken. These two exemption conditions should limit the

⁵ “Market Rule Amendment Proposal Form (Subject: Improving Accessibility of Operating Reserve)”, IESO, May 31, 2022, <https://www.ieso.ca/-/media/Files/IESO/Document-Library/tp/2022/iesotp-20220614-mr-00467-r00-improving-accessibility-of-operating-reserve-amendment-proposal.ashx>.

⁶ “Notice of Reconsideration 1164: Ivaco Rolling Mills”, IESO, June 10, 2022, <https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/web-IESO-Staff-Recommendation-Ivaco-1164.ashx>;
“Notice of Reconsideration 1304: Gerdau Long Steel”, IESO, June 10, 2022, <https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/web-IESO-Staff-Recommendation-Gerdau-Whitby-1304.ashx>;
“Notice of Reconsideration 1305: Gerdau Long Steel”, IESO, June 10, 2022, <https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/web-IESO-Staff-Recommendation-Gerdau-Cambridge-1305.ashx>;
“Notice of Reconsideration 1308: ArcelorMittal Dofasco Inc.”, IESO, June 10, 2022, <https://www.ieso.ca/-/media/Files/IESO/Document-Library/exemptions/web-IESO-Staff-Recommendation-AMD-1308.ashx>

number of intervals with potential unavailable operating reserve to no more than three or four intervals per hour. The condition applicable to Ivaco for the operating reserve market requiring it to submit a maximum reserve offer quantity equal to average consumption per dispatch hour, including zero consumption time periods, should further reduce the amount of unavailable reserve scheduled and the associated inappropriate payments. The MSP suggests that a more detailed explanation and quantification of the deficiencies of the conditions in the existing exemptions is needed to better understand why the status quo is not acceptable and why a set of potentially less stringent exemption conditions are being put forth by IESO staff.

Second, the IESO staff recommendations compare the revised conditions for exemption against the status quo when discussing the exemption approval criteria set out in Manual 2: Part 2.2. However, comparing the outcomes under the IESO staff recommendations to the status quo would be inappropriate *if* the previous conditions for exemption are proven to be deficient or unworkable and hence an untenable solution moving forward. In that case, when evaluating the criteria for the exemption the proper comparison is to the next best *feasible* alternative. If the current conditions for exemption are deficient (a conclusion that the IESO staff discussion does not substantiate per our first observation above), then the more appropriate comparison is likely the situation where the Exempt Loads are *ineligible* to be dispatchable loads. This was the comparison properly applied by IESO staff and the exemption panel to evaluate the criteria for approval for the existing exemptions.

Third, a factor to be considered in the evaluation of the reconsidered conditions for exemption is whether the conditions for exemption provide the Exempt Loads with an undue preference⁷ or a competitive advantage in the supply of operating reserve relative to other operating reserve providers, including generators. This is not addressed in the IESO staff recommendation. The proposed conditions *could* provide the Exempt Loads with an undue preference or competitive advantage *if* they permit the Exempt Loads to be scheduled for an amount of unavailable operating reserve proportional to the offered amount that is materially greater than what is allowed from other providers of operating reserve (e.g., generators) under the market rules. Providing an undue preference or competitive advantage to the Exempt Loads could lead to short-term inefficient dispatch and over the long run, less efficient investment in operating reserve capability, and would be inconsistent with the efficient and fair operation of a competitive market. The MSP has not formed an opinion on this issue but believes that it requires consideration and that the IESO should provide an analysis of it in support of their recommendations.

Fourth, the IESO staff recommendation proposes to exempt the Exempt Loads from the pending non-accessibility charge (if approved by the IESO Board of Directors). As noted

⁷ See Section 1.4.2 of *Market Manual 2: Administration - Part 2.2: Exemption Application and Assessment*.

above, the pending market rule amendment would allow the IESO to automatically claw-back operating reserve payments from market participants when they fail to maintain adequate unused generation (or load reduction) capacity when scheduled for operating reserve. Exempting the Exempt Loads from the charge would provide them with an undue preference or competitive advantage over other operating reserve providers that will be subject to the charge in the sense that the Exempt Loads would receive a higher payment for an inferior product. As discussed above, this would be inconsistent with the efficient and fair operation of a competitive market. The IESO staff recommendation offers no justification for why the Exempt Loads should be exempt from this charge while their competitors are subject to the charge.

In conclusion, the MSP believes that IESO staff has not provided sufficient information or evidence to support a conclusion that the threshold criteria for exemption, as set out in the Market Manual referred to above, have been met.

We trust you will find the MSP's observations helpful in your consideration of this matter.

Respectfully,

The Market Surveillance Panel

cc

Michael Lyle, Vice-President, Legal Resources and Corporate Governance, IESO

Carolyn Calwell, Chief Corporate Services Officer and General Counsel, OEB

Exempt Loads:

Victor Stranges, ArcelorMittal Dofasco, G.P., ArcelorMittal Dofasco Inc.

Sam Harper, Director of Energy, Gerdau Long Steel North America

François Abdelnour P.Eng., Energy Director, Ivaco Rolling Mills

Appendix A

In 2002, IESO staff recommended approval of the exemption for Ivaco, under the following conditions:

- 1) submit a maximum energy bid quantity at average consumption of the process while running, not including zero consumption time periods, and with ramp rates that allow the facilities to go from minimum to maximum load bid within 5 minutes, to reduce the amount of non-compliance alarms and the number of dispatch instructions;
- 2) submit a maximum operating reserve offer quantity at average consumption per dispatch hour, with the average including zero consumption periods to ensure fairness of payments to the successful bidders into the Operating Reserve Market;
- 3) when offering in the operating reserve market,
 - a) dispatch to or remain at full consumption if it receives an energy dispatch instruction that is to 50% or greater of its energy bid quantity and dispatch to or remain at minimum consumption if the energy dispatch instruction is to less than 50% of its maximum bid quantity;
 - b) if at zero load and dispatched to full consumption but unable to comply within the five-minute interval because of operating characteristics, notify the IESO that it cannot comply and remain at zero consumption until the next dispatch interval; and
 - c) report equipment outages of four or more consecutive dispatch intervals to the IESO when unable to operate as per normal operations (occasional equipment outages of up to four consecutive dispatch intervals).

Appendix B

Table 1: Main Conditions of Existing Exemptions (2002 and 2004), and Proposed Conditions on Reconsideration (2022)

	Conditions for Existing Ivaco Exemptions (2002)	Conditions for Existing Gerdau, Dofasco Exemptions (2004)	Conditions Proposed by IESO Staff for Exemption Reconsideration (2022)
Normal Consumption Pattern	Mentioned but not officially defined	During production cycle can respond to energy dispatch instruction in 15 minutes or less	Defined but not publicly available
Maximum Energy Bid Quantity	Average consumption of the process while running, <i>not including</i> zero consumption time periods	Average consumption of the process while running, <i>not including</i> zero consumption time periods	Hourly average consumption over applicable 6 month period (<i>including</i> zero consumption period) when metered consumption exceeds 1MW
Energy Bid Adjustment	Not addressed	Not addressed	If reasonably expect dispatchable load to decrease by more than 10% then max energy bid decrease by same percentage
Energy Dispatch	Dispatch to full consumption if dispatch instruction is to 50% or more of maximum bid, and dispatch to zero consumption otherwise	Dispatch to full consumption if dispatch instruction is to 50% or more of energy bid, and dispatch to zero consumption otherwise	If instructed to dispatch to zero, dispatch to 1MW or less in 5 minutes, if the instruction is to 50% or more of energy bid, dispatch to normal consumption pattern, and dispatch to 1MW or less otherwise
Operating Reserve Offer	Average consumption per dispatch hour, <i>including</i> zero consumption time periods	Not addressed	Hourly average dispatchable consumption (<i>including</i> zero consumption period) in all settlement hours that an offer for operating reserve was submitted during applicable 6 month period
Operating Reserve Adjustment	Not addressed	Not addressed	If reasonably expect dispatchable load to decrease by more than 10% but within normal consumption pattern for 5 hours or more, then max reserve offer decrease by same percentage
Operating Reserve Activation	Not addressed	Not addressed	If dispatchable load at 1MW, accept ORA and remain at or below 1MW until deactivated, otherwise got to 1MW or less regardless of value of ORA until deactivated
IESO Notifications	If cannot comply with dispatch instruction within the five-minute interval	If operating outside normal consumption pattern and cannot comply with dispatch instruction	If expect to operate in manner that, for any reason differs materially from dispatch instruction and operating parameters of the exemption
Non-accessibility charge	Not applicable	Not applicable	Exempt if compliant with terms and conditions of Exemption