



Market Rule Amendment Written Submission

This form is used to provide comment on a *market rule* amendment under consideration by the *IESO*. Please complete all four sections of this form and submit the completed form by email to the following:

Email Address: Rule.Amendments@ieso.ca
Attention: Market Rules Group
Subject: Market Rule Written Submission

All information submitted in this process will be used by the *IESO* solely in support of its obligations under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, the *Market Rules* and associated policies, standards and procedures and its licence. All submitted information will be assigned the *confidentiality classification* of “Public” upon receipt. You should be aware that the *IESO* intends to *publish* this written submission.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *Market Rules*.

PART 1 – SUBMITTER’S INFORMATION

Please enter your organization and contact information in full.	
Name: <u>Shell Energy North America – Paul Kerr</u>	
(if applicable) <i>Market Participant / Metering Service Provider</i> No. ¹ : <u>104350</u>	<i>Market Participant Class</i> : <u>many roles</u>
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PART 2 – MARKET RULE AMENDMENT REFERENCE

Type of Rule Amendment Being Commented on (please indicate with x):		
<input type="checkbox"/> Amendment Submission	<input checked="" type="checkbox"/> Proposed Rule Amendment	<input type="checkbox"/> Recommended Rule Amendment
MR Number: <u>MR-00425</u>		
This <i>Market Rule</i> number is located on the “Current Market Rule Amendment” web page.		
Date Relevant Amendment Submission, Proposed or Recommended Rule Amendment Posted for Comment: <u>June</u>		

¹ This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 3 – COMMENTS ON RULE AMENDMENT

Provide your comments.

Shell Energy supports the comments submitted by the Association of Power Producers of Ontario.

Please see attached, and to be included as part of this comment submission, a previous submission by Shell Energy regarding this engagement and the resulting rules.

Additional comments for consideration:

The presentation to stakeholders on May 26th included on slide 12 the following definition:

“Point of initiation for a gas turbine resource occurs when the gas turbine rotor reaches self-sustaining speed”

Stakeholders have raised questions about this definition – what it really means, as well as the appearance that it is somewhere further along in the process than that of simply starting the resource and beginning to consume natural gas. It really should be that simple – computation of fuel consumption begins with the consumption of fuel for the start.

This is a critical element to the computation and determination of the volume of fuel to be recovered for starting the resource. The IESO has not answered or addressed this important issue, nor achieved stakeholder agreement as to its meaning. Although this concept is used in the wording of the proposed rule amendment, it is not to be a defined term within the rules, but apparently one of the many aspects being left for the IESO to establish within a Market Manual. Shell Energy suggests that this rule should not proceed forward without the accompanying Manuals ... and given that this critical undetermined concept is within the rule before the Panel (2.2B.4 and 4.7B.5.1 and the revised Ch 11 definition of combined guaranteed costs), this rule should not be recommended for approval.

Further to the amount of detail to be left for the IESO to put in Manuals rather than Rules. Although the IESO staff has expressed its disagreement with stakeholder views in this regard, the concept noted above is an example of the amount of authority IESO staff is providing itself in this process. It is the IESO Board that has the powers to make Market Rules so the approach being taken amounts to a delegation of that power to IESO staff which is not authorized by the enabling legislation. As noted above, and previously by stakeholders, this concern might be partially addressed or mitigated if the Manuals were created, consulted, and approved along the same path as the Rules.

Additionally, the Panel should consider in sections 2.2B.4, 2.2B.5, and 2.2B.6 whether the references to “*facility*” maybe should be “*resource*” as well as whether the continued reference to “*generation facility*” in the Ch 11 definition is appropriate.

Although not part of the proposed rule amendment wording, Shell Energy takes this opportunity to

PART 3 – COMMENTS ON RULE AMENDMENT

express disagreement with the methodology used (and thus the outcome) in determining the Fuel Services Adder of 4.3 cents.

PART 4 – EXTERNAL CONSULTATION MEETING

If you believe that a special meeting of stakeholders would be necessary/desirable to discuss the issues raised by the rule amendment, please complete the following information:

External Stakeholdering meeting necessary/desirable (please indicate with x):

Reason(s) why you believe a meeting is necessary/desirable:



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April 14, 2016

Stakeholder Engagement
Ontario Independent Electricity System Operator
stakeholder.engagement@ieso.ca

**Re: Stakeholder Engagement: RT-GCG Cost Recovery Framework
March 31, 2016 Meeting of Stakeholders
Comments of Shell Energy North America (Canada) Inc.**

Shell Energy North America (Canada) Inc. (“Shell Energy”) provides these comments to the IESO regarding the proposed changes to the RT-GCG program costs. See also the prior submissions of Shell Energy dated November 20, 2015 and January 8, 2016.

Shell Energy maintains that costs within the program should be based on actual costs. Lessons learned from previous audits along with improvements to the market rules will provide the increased administrative efficiency the IESO is seeking. The proposals, including the exclusion of the WACOG methodology and an appropriate allocation of demand charges for firm services, will diminish the intended reliability objective of the program.

Cost Recovery of Actual Fuel Costs is Necessary

Using the Dawn day-ahead index ignores the fact that participants have contractual delivery obligations with the utilities serving them, and may need to use storage and balancing services to meet these obligations along with the operational needs of participating in the market and the program. Using a WACOG methodology remains a legitimate approach to valuing the actual cost of fuel used from storage. Using the Dawn day-ahead index also ignores the fact that the program exists in the real-time, with participants purchasing fuel intra-day based on the unfolding needs of the electricity system. The proposed “Services Price Adder” pre-approved universal value does not include any accommodation for this increased intra-day fuel cost, and must be changed to do so.

In addition to this typical situation, the extreme daily volatility with extremely high prices experienced in the natural gas markets in past winters demonstrates that limiting recovery of costs to the day-ahead index will decrease reliability at exactly the times that it is needed the most. Participants may need to submit energy offers that are so high that they may not be

dispatched economically even within this program, or they may not submit offers at all. The ability to recover actual costs remains imperative.

If the IESO changes the rules such that index-based cost recovery becomes the standard, some form of exception mechanism should be provided that establishes a process for recovery of actual costs in order to maintain the reliability objective of the program. This process could be as simple as a threshold trigger, such as actual costs being 110% or more than provided for under index-based recovery.

Cost Recovery of Actual Services Costs is Necessary

The research commissioned by the IESO demonstrates the prevalence of firm services offered by the pipeline and distribution companies that are being used by participants in Ontario. These firm services are necessary to ensure the reliable operations of the facilities. The IESO, and Ontario consumers, benefit from this operational assurance. These benefits were experienced significantly in winters past, and as recently as February 2016 when the utilities were curtailing the provision of interruptible services and only meeting their firm service obligations.

An appropriate allocation of the actual demand charges paid for these services is necessary for recovery within the program. Yet, because these demand charges for firm services are “fixed” rather than “variable”, the IESO proposal is to deny their recovery. Forcing, or economically incenting, participants to contract for the variable rates that accompany interruptible services will diminish not only the functioning of this program, but the reliability of the Ontario electric grid at all times.

If the IESO continues with its proposal to not allow an allocation of these actual demand charges, the charges must be adequately accounted for in determining any universal pre-approved variable value. The proposed “Services Price Adder” must accommodate these costs if reliability is to be maintained.

Respectfully,

submitted electronically

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