

May 24, 2017

Re: FEEBACK ON MAY 11, 2017 DRWG MEETING

Thank you for the opportunity to comment on the issues presented at the May 11th DRWG webinar. Enershift would like to offer feedback on the proposed changes to the Notification and Activation of Hourly DR Resources.

A. GENERAL

Enershift is in general agreement with the points raised with respect to activation history, but we would note that bidding behaviour at the maximum bid price was contemplated and discussed extensively in the market design phase. The consensus from the IESO at that time was that bids at \$1999 would still be considered effective since dispatch would occur at that price in event of system need. Nonetheless, we agree that all aspects of the dispatch process should be examined when reviewing how best to maximize the value of an important resource such as the DR Auction.

B. STANDBY NOTICE CRITERIA

i. Option 1 – Every Day Treated as a “Standby” Day.

This option nullifies the intent of a Standby notification, instead relying on the 2.5-hour activation notice interval as the sole means of “event” indication. The feedback we have received from the majority of contributors is that they prefer more notice over less notice, and they appreciate the staging aspect of a Standby preceding an Activation. Not surprisingly, they would likely not be in favour of any situation where they might receive as little as 2.5 hours to activate with no prior opportunity to prepare.

ii. Option 2 – Reduce the 4-hour Scheduling Requirement to 1 Hour

The current design requires 4 consecutive hours to exceed the bid price to initiate a Standby. Option 2 proposes that this be changed such that a single hour exceeding the bid price would trigger a Standby. While it seems likely that this measure would increase the number of times Standby status is raised, analysis should be undertaken by the IESO to ensure that there would be a high correlation with subsequent Activations. Experience in the early DR3 program demonstrated that an excessive number of Standby notices renders them operationally ineffective, so care must be taken to align Standbys with Activations or they will be increasingly dismissed by contributors as noise.

iii. Option 3 – Adopt a Price Trigger as Standby Criteria

Enershift believes that issuing a Standby that simply signals when the minimum bid threshold has been exceeded could generate too many notices that will be ignored by contributors (see above), and will not necessarily result in more dispatches or influence bidding behaviour. It also removes the direct relationship between bid price and market activity.

C. ACTIVATION LENGTH

i. Option 1 – Maintain the 4-hour Block Dispatch

Maintaining the status quo is operationally acceptable since most contributors have optimised for the current rules. However, Enershift is open to the other options being discussed.

Question - With respect to the comment that dispatching the 4 hour block out of merit might distort the real-time prices of later hours – how does this differ from dispatching generation with minimum run times?

ii. Option 2 – Align Activation Block Hours with Hours Scheduled in Predispatch

This option would allow for dispatch schedules of 1, 2,3 or 4 hours. Aggregators often optimize their portfolios to deliver the best performance over the entire 4-hour dispatch block. Some contributors will have a minimum dispatch length (not unlike some generators), whereby processes can be stopped but not restarted until certain period has elapsed. As a result, it is likely that only a subset of assets can actually curtail for shorter periods.

Some other issues that bear consideration if the variable block size paradigm were to be adopted:

- How are bids to be structured such that they can signal availability if the length of a potential event is unknown? Differing event lengths could require a different resource mix and MW capacity for the aggregator
- Are multiple (non-contiguous) dispatches contemplated in the same day?
- Assuming that dispatching a single hour results in removal of the entire day from the baseline calculation, multiple, successive single hour dispatch days could quickly deplete the pool of eligible business days used to compute the baseline.
- Consider making dispatches that are less than 4 hours voluntary. If the IESO does not pay utilization based on actual hours of dispatch, they could indicate an option or preference for participants to elect to provide less than the 4-hour block. A contributor would be held to performance requirements for the full 4-hour block unless the IESO has indicated a preference for a smaller block size and the contributor has confirmed the smaller block size in return. If the contributor has confirmed a smaller block size as the result of the request, the IESO will settle performance based on the new block period.
- How would the Auction differentiate between a participant offering 100 MW of 1 hour resources versus 100 MW of 4 hour resources?
- Some existing availability clawbacks are predicated on a contiguous 4-hour availability block. This penalty would have to be amended or removed.
- Existing contributor agreements held by aggregators may not allow for dispatch of fewer than 4 hours. The implementation schedule of any changes to the dispatch block size would need to take aggregator's commitments to their contributors into account.
- Sufficient lead time would be required to update systems and tools to accommodate different dispatch block sizes.

- Direct participants and aggregators with few discrete contributors may be able to accommodate changes to the dispatch block more easily. However, depending on how this is structured, aggregated portfolios of differing contributor types might end up having to de-rate their capacity if not all participants are able to accommodate 1 hour blocks. In other words, participants could be in the position of having to offer differing capacities and availability based on event length. This was not anticipated in the original auction design and could be overly punitive to mixed resources.

D. ENERSHIFT RECOMMENDATIONS

Enershift recommends that the IESO consider an incremental approach to fine tuning the DR Auction dispatch behaviour, starting with enabling one or more hours exceeding the bid price to raise a Standby. Dispatch should continue to be for the full 4-hour block until the effectiveness of this measure is understood. Referring to the Table of Solutions provided for feedback on slide 18, we would recommend the third entry – **Standby Notice Criteria Option 2 and Activation Length Option 1**.

Enershift fully supports the requirement to demonstrate the utility of the DR Auction, but we should be cautious of changing the design too much based on the stability of supply that exists today. All stakeholders should be very clear on what the intended outcome of the proposed changes is meant to be, and if those changes will be sufficient to address the concerns that have been expressed regarding the value of the DRA. Increasing the number of Standbys issued is not without consequence and may not necessarily increase the number of dispatches (assuming that is the intended outcome). Changing the dispatch blocks size is viable, but represents a departure from the current design that has ripple effects on systems and costs for both the IESO and participants. At the same time, we must also be cognizant of remaining as aligned as practical with the proposed ICA.

To assist in the evaluation of the effectiveness of the proposed measures, Enershift suggests that the IESO model the proposed Standby and Activation scenarios using data from the first auction delivery periods, and share these results with the DRWG.

In closing, it may be instructive to recall that during the Market Renewal training sessions, several speakers alluded to the fact that capacity markets are essentially insurance policies. Few would advocate discontinuing their fire insurance on the basis that there has not been a fire (nor would they endorse discharging the fire extinguishers simply to increase their perceived value). Enershift is hopeful that a similarly nuanced view of a capacity product such as the DR auction will become the prevailing mindset in Ontario.

Sincerely,

Enershift