

# UTILIZATION PAYMENT DISCUSSION PAPER

Demand Response Working Group

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January 30, 2018

# Purpose

- To facilitate a discussion with questions on the key arguments and observations from the Navigant Demand Response Discussion [Paper](#) on Utilization Payments
- Hear representations from stakeholders for IESO to better understand perspectives, concerns and rationales on this issue
- Determine whether and how best to proceed

# Utilization Payments - Background

- Utilization Payments has been a recurring topic of discussion by stakeholders in the DRWG and was included in the 2017 Work Plan as a discussion item
- The IESO has committed to explore the merits of Utilization Payments by engaging an independent consultant. The discussion paper authored by Navigant was published in December 2017
- Stakeholders provided input into potential topics to be included in the scope of the discussion paper

# Re-cap of Scope

- The paper provides research on utilization payments within the following framework

## Economic Efficiency

- Arguments for/against providing a utilization payment to DR resources in light of current and future system needs

## DR Participation

- The likely impacts of utilization payments to the dispatch frequency of HDR resources in Ontario

## Wider Market Impacts

- Spillover effects on the wider market

## Jurisdictional Review

- A summary of practices that are adopted in other markets

# Considerations for Ontario

- The Paper does not include formal conclusions or recommendations.
  - For each of the arguments presented, the Paper outlines considerations for Ontario which may affect the applicability and materiality of some of the issues discussed
- IESO is interested in better understanding how members view these observations and what is instructive for the DRWG to consider further
- Next slides outline some of the key considerations and questions for further discussion

# Overview of Arguments

- Paper reviews common arguments put forward by proponents and detractors on merits the issue

## *Against*

- Wholesale Price Efficiency
- Disproportional Benefits
- Harm to Other Suppliers
- Harm to Economy

## *For*

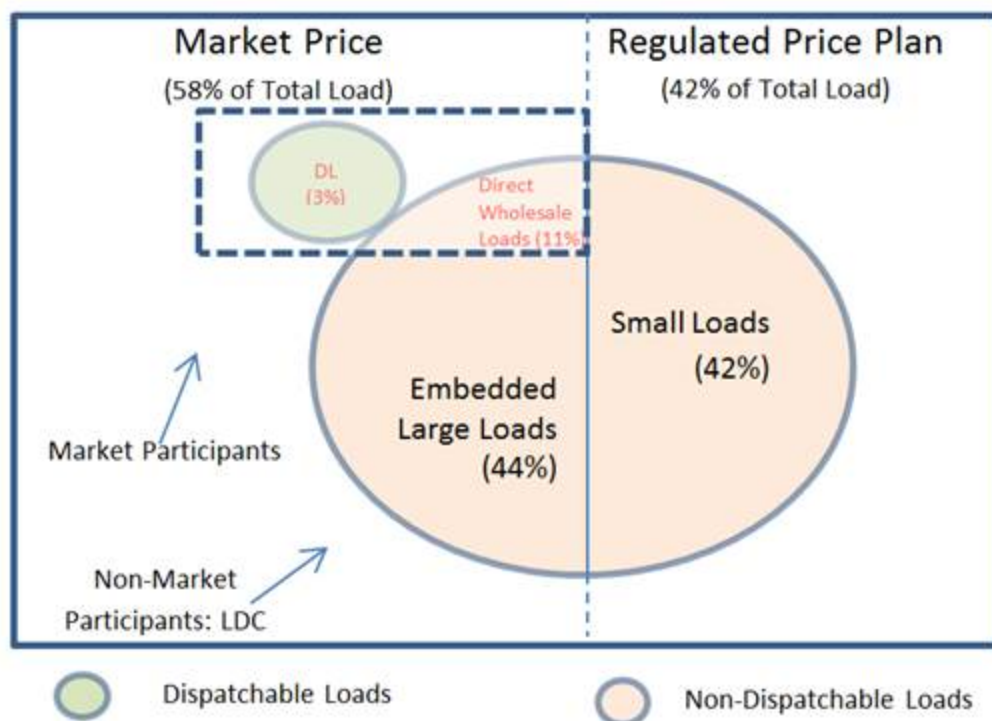
- Reducing Consumer Costs
- Disconnect between Wholesale and Retail Prices
- Fairness
- Other Costs Associated with Curtailment

# Discussion: Where to go from here?

- IESO is looking for compelling rationales from the DRWG on the merits of DR utilization payments
  - Need feedback and arguments on whether the DRWG should continue to pursue the utilization payment issue and why?
- IESO and stakeholders will also need to consider the broader implications of this issue beyond the DRWG (and Market Renewal and the ICA in particular)
- Out of this Discussion Paper, the IESO has some initial questions for the working group on the materiality and impact of utilization payments

# Discussion – Market v. Retail Price

- The Paper notes that a number of the arguments are contingent upon whether customers pay the market price for electricity or are on retail rates



<http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-20170817-presentation.pdf?la=en>



# Arguments

## *Against: Wholesale Price Efficiency*

- Price-responsive loads determine whether it is more cost-effective to operate or curtail based on market price signal

## *For: Disconnect Between Wholesale and Retail Prices*

- Customers on regulated price plans are not exposed to real-time signals
- Utilization payments may improve efficiency of retail price as additional incentive during periods of high market prices

# Discussion Questions

- *What are members' views on these arguments?*
- *How applicable is the market v. retail pricing issue to HDR resources?*
- *What proportion of existing DR contributors are exposed to market price v. retail price?*

# Discussion – Utilization Frequency v. Cost of Activations

- The Paper notes that the arguments depend a great deal on whether utilization payments result in a considerable increase in activations
- These arguments are also closely tied to the cost of curtailment, ie the value of lost load (VOLL)

# Arguments

## *Against:*

- Payments may lead to greater activations  
→ putting downward pressure on prices  
→ negatively impacting other suppliers

## *For:*

- Increased DR participation/lower energy prices
- There is a cost associated with curtailment (**value of lost load**), which can be higher than avoided cost

# Discussion Questions

- *What impact do members believe utilization payments would have on their own energy bid prices?*
  - *Lower bid prices may increase frequency of activations and overall participation*
  - *Would energy bid prices be lowered to the point where utilization is impacted?*
    - *The IESO provided historical price observations at its Sept 12 DRWG meeting: <http://www.ieso.ca/-/media/files/ieso/document-library/working-group/demand-response/drwg-20170912-update-improved-utilization-dr.pdf?la=en>*
  - *How does it change by type of load?*
  - *How are VOLL considerations currently reflected in bids into the energy market?*

# Discussion – Fairness and Equity

- The Paper also considers utilization payments in a broader context of fairness and equity

# Arguments

## *Against:*

- Utilization payment compensates DR disproportionately because DR resource did not incur a cost associated with the production of electricity (**negawatt**  $\neq$  **megawatt**)

## *For:*

- Generators receive a utilization payment via an energy payment; should DR should be treated consistently and receive curtailment payment? (**negawatt** = **megawatt**)

# Member Representations/Discussions

- Interested in hearing member perspectives and observations
  - *What arguments did members find compelling and why?*
  - *Are there areas which require further analysis/discussion?*



# Next Steps

- Please send any additional feedback by February 13 to [engagement@ieso.ca](mailto:engagement@ieso.ca)
- This feedback will help IESO make a determination on how to proceed on this issue for 2018