



March 29, 2018

Via Email

Re: DRWG 2018 Comments

Thank you for the opportunity to comment on the recent activities of the Demand Response Working Group.

2018 Workplan

Rodan is in general agreement with the 2018 goals as presented. However, as noted in more detail in the comments below under "Integration and Alignment with ICA", the ability to make changes to the DR auction may become limited to incrementally adopting a subset of the proposed ICA rules.

With respect to the **Priority Items Not Addressed in 2017 - Dispatchable Loads in Aggregated Resources**. This item should not be delayed by the IESO any longer. Although the issue was flagged during the initial auction design (and every auction thereafter) and a resolution was to follow by auction 2, the earliest implementation of a solution now appears to be Auction 4, or perhaps even in the ICA. Rodan feels that this is unacceptable, and potentially even more damaging when Operating Reserve is expanded under the Flexibility initiative. Increasing procurement for Operating Reserve increases the likelihood that contributors who are already offering Demand Response through aggregators will want to participate in OR, exacerbating the existing problem for aggregators even further.

Aggregators provide operational flexibility to large contributors that may not be immediately apparent. They not only provide traditional DR operational services, but also minimize the ongoing risk of committing through the forward period and shouldering prudentials. Not allowing aggregators to maintain services for these contributors denies the contributor choice, and could be a determining factor in what they are able offer into the market.

Restricting Dispatchable Loads from participating through aggregators forces them to participate directly regardless of their preference. In doing so, the IESO creates a distinct competitive disadvantage for aggregators through unequal access to the market. Rodan believes that the IESO should commit immediately to removing this long-standing deficiency, and the update of the requisite system tools should not be tied to the delivery of the Market Renewal initiative.

Utilization Payment Discussion

By design, the background material provided by the Navigant Demand Discussion paper on Utilization Payments did not provide any weighting of the issues on either side of the argument. This was helpful in articulating the issues for discussion, but did not really advance the decision-making process.

One aspect of the ensuing discussions that Rodan believes requires more consideration is the notion that the avoided cost of energy is a significant incentive for all contributors. As noted in Navigant's report, this premise is only valid for contributors who are exposed to the wholesale price, and even at that, only a subset of customers for whom electricity is a major component of their cost of production.

Aggregators typically include a mix of wholesale and regulated price customers within a given resource. The proportions may vary from resource to resource (and from aggregator to aggregator), but the price regulated contributor pool can be a significant percentage of the total.

Accordingly, Rodan believes that the value of cost avoidance is only germane to a subset of larger participants and is overstated for most others. Aggregated resources, which comprise the majority of the MWs offered into the DR Auction, have a significant proportion of contributors that are not exposed to the same price volatility, and as such have very little inclination to be dispatched based on the cost of energy alone. For these reasons, avoided cost should not be considered a factor in determining the relevance or magnitude of utilization payments in the DR auction.

Utilization Payment Discussion – Fairness

The concept of equal treatment of resources in the market should extend to equal treatment in revenues. Even if the cost of lost or deferred production is set aside, Demand Response is not without incremental cost. Curtailments require additional labour to prepare and execute, and additional expenditures are often required to enable the necessary flexibility in the workforce.

Utilization payments for Demand Response should not be oversimplified to "paying someone to not use something." DR payments should cover the cost of making energy available, which other jurisdictions have established is no different than paying to make energy available through generation. Other jurisdictions have reaffirmed the notion that demand response confers system benefits that exceed avoided cost, and in many cases, exceed the energy price (FERC 745, etc.). If parity is the goal (as with the ICA), then DR resources must be viewed in this light.

Standbys Triggered by \$100 Shadow Price

Rodan is supportive of any initiative that helps increase the utility of demand response to the IESO. With respect to the IESO's proposal to issue a standby for any hour where the shadow price exceeds \$100, we are generally supportive but we note the following concerns:

- ***This is an "administrative" price by any other name.*** \$100 was chosen by the IESO to provide some arbitrary number of standbys from historical data, but there is no definition behind what the optimal number of standbys should be to satisfy its operational needs. One of the early criticisms of DR3/CBDR was that the need for dispatch appeared (to participants) to be based on a "black box" of conditions that included market requirements and other undefined factors. Uncertainty is bad for market confidence and participation. Rodan strongly suggests that the IESO describe the target number of standbys, based on empirical measures, as the rationale for the \$100 price, rather than something that happens to "look right" at this time. This reassures

participants that the IESO is making this determination in a transparent manner and facilitates adjustments at a later date if the underlying assumptions and rationale do not pan out.

- ***Standbys without activations.*** As we have discussed at length at the DRWG, standby conditions that do not result in activations can have a corrosive effect on performance and availability of loads. Assuming this proposal proceeds, Rodan recommends that the IESO consider a mechanism whereby resource availability expectations for an activation are scaled in proportion to the number of standbys without activations.
- ***Understanding that the objective of these changes is to increase availability, not necessarily to increase the number of activations.*** This point arose from the discussion when the IESO was asked how often the \$100 standby trigger would have resulted in an activation using the historical record. If the intention of this proposal is to increase the availability (or the option) to dispatch DRA resources, rather than to increase the number of actual dispatches, then it must be clearly articulated as the goal, particularly when evaluating the efficacy of the program at a later date.

HDR Testing

Rodan believes the suggestion to limit test dispatches to one hour is a reasonable request considering the IESO proposal to allow 1, 2, 3 or 4-hour dispatches. There is little reason to test for the maximum (or worst case) dispatch length if the intention of the test is to determine the ability to follow dispatch instructions and demonstrate curtailment.

Integration and Alignment of DR Auction Enhancements with ICA

Rodan supports the development of the ICA as the successor to the DR auction. However, we note that aligning changes in the current DR auction with ICA design may be more problematic in practice. The preliminary ICA design is fundamentally different from the current DR auction delivery framework in almost every respect:

- Hours of availability and must-offer obligations
- Standby notices (or lack thereof)
- Length of dispatch
- Compliance evaluation (baseline etc.)
- Compensation
- Qualification

Tying DR Auction changes to the proposed ICA design means that the expectation is for the existing auction to converge with the ICA (at least in terms of changes or enhancements), but there is far less evidence and expectation that the ICA will be influenced by developments in the existing auction (see bullet list above).

Since ICA is still in the design phase, there is also the danger that changes to the DR auction that are constrained in this way could result in changes that “align” with features in the ICA that are never actually

implemented. In other words, “seams” issues could be bidirectional since the ICA design is fluid and is (at present) a moving target.

Recognizing that any change in the DR auction that does not mirror the proposed ICA operational parameters will cause divergence, it may be useful for the DRWG to revisit what the intended purpose of the DR auction and DRWG is. For consideration:

- Are the updates to the existing DR auction strictly an effort to increase market utilization of DR resources until the ICA design takes over?
- Regardless of original intent, is the primary function of the DR auction now to bridge the gap and house the DR fleet until the ICA is ready?
- Is the DR auction a test platform for ICA design? If so, what lessons has the IESO learned from the operating the DR auction that should be/will be rolled into the operational side of the ICA? Has the design of the DR auction informed any of the choices in the ICA to date? The current design appears to share very little with the current DR auction.

Sincerely,
Rodan Energy Solutions / Enershift