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VIA ELECTRONIC MAIL TO ENGAGEMENT@IESO.CA

RE: Demand Response Working Group Priorities

To the Independent System Operator of Ontario;

Advanced Energy Management Alliance (“AEMA”) is pleased to continue to participate in the discussions at the DRWG to ensure that demand response (“DR”) continues to provide value to the Ontario electricity system and the Ontario ratepayer. AEMA is a North American alliance of providers and supporters of distributed energy resources, including DR and distributed generation, united to advocate for policies that empower and compensate customers appropriately in a manner which contributes to a more efficient, cost effective, resilient, reliable and environmentally sustainable grid. The views expressed in this letter represent those of the organization as a whole, not of any individual companies.

AEMA members have been active participants in a variety of IESO markets and programs, such as but not limited to the Demand Response Auction. AEMA members participate in numerous IESO stakeholder engagements to provide insight to inform the IESO’s development of a variety of market mechanisms. AEMA members have unique experiences to contribute to the design and operation of the Ontario electricity system.

Over the last several years AEMA and its individual members have continued to advocate for operational changes to programs rules for DR participation to make the resource better – better for participants and better for the system operator. This includes the priorities identified in summer 2019 and confirmed by IESO staff in the winter of

2020, namely baseline methodology and in-day adjustment factor, and the registration of virtual HDR resources.

The discussion at the August 2020 Demand Response Working Group (“DRWG”) that the IESO would no longer be pursuing the priorities due to newly identified “key challenges” not only caught DR participants off guard but also left DR participants with a sense of frustration about the IESO’s need for a new “holistic look” at DR participation to “ensure a coordinated strategic approach to evolving market design and the DR participation model.”¹ First, it is difficult to understand the firm “no” from the IESO regarding changes to in-day adjustment factors since other jurisdictions have maintained reliability in their systems while allowing for a variety of forms of inclusivity. Second, for years AEMA members have advocated for enabling the DR resource to provide more value to the Ontario electricity system and have worked tirelessly with IESO staff to remove the barriers to DR participation. While these conversations were important to members, the introduction of the Capacity Auction has highlighted the barriers that DR resources face in bringing their full value to bear on the market. Many of the resources alongside whom DR will compete in the Capacity Auction have access to additional markets such as Operating Reserve and access to value streams such as energy payments that are not available to DR resources.

More broadly, AEMA and its members continue to struggle to understand why the IESO is not embracing and enabling DR resources – resources that are cost effective, flexible, clean and reliable:

1. Cost effective

- DR provides capacity at a cost that is lower than alternative supply as demonstrated by historical DR auction clearing at prices below Cost of New Entry (“CONE”).

¹ <http://www.ieso.ca/Sector-Participants/Engagement-Initiatives/Working-Groups/Demand-Response-Working-Group>

- DR provides the opportunity for existing or new solutions to be placed at commercial, industrial, and institutional sites. This allows the host company to better manage their overall net energy costs, enabling Ontario companies to remain competitive.
- DR can substitute the need to invest in difficult-to-locate and expensive transformer stations and high voltage power lines.

2. *Flexible*

- DR does not require long-term contracts. Ontario has uncertain capacity needs during the period of recovery from COVID-19 and during the unique circumstance of nuclear refurbishments.
- DR does not require long lead times to build or implement. Non-DR resources are often subject to long lead times to site, gain community acceptance and build, requiring the IESO to establish needs many years in advance.
- DR can be deployed to meet regional or local power system requirements.
- DR averts the need to use the most costly-to-run power plants during periods of otherwise high demand, driving production costs and prices down for all wholesale electricity purchasers.

3. *Reliable*

- DR has demonstrated its benefit to the Ontario power system in times of reliability concerns and Energy Emergency Alerts during July 2020.

4. *Clean*

- DR solutions often result in reduced emissions, an important attribute as the fight against climate change must remain an important priority. DR is an alternative to more expensive and GH emitting infrastructure investments for peak management.

AEMA is not suggesting DR is the only solution, but the detailing of the attributes of DR should encourage the IESO and Ontario to work hard to ensure it remains a meaningful component of the Ontario electricity system of the future. AEMA members will continue to expend time and resources to participate in discussions on the participation model of DR; however, once again the community feels that that the cycle of “one step forward, two steps back” is continually repeating itself.

In the paragraphs that follow, AEMA responds to several of the IESO’s questions for feedback from the DRWG meeting on August 6, 2020. AEMA members will submit their own specific responses to the questions of priorities and value in proceeding with multiple virtual HDR resources registration.

Are there other areas of DR participation that this discussion should focus on?

AEMA members request that the IESO staff immediately bring forward a presentation on the current IESO tools, the changes that will be made through the Market Renewal Project, and how the priorities of 2020 will face “challenges.” For years, DR participants have been told that there are limitations and “challenges” within the IESO’s systems; however, improvements never seem to occur to address these “challenges” despite the movement from a centralized to decentralized electricity system and the introduction of a Capacity Auction where, AEMA assumes, resources are intended to compete on a level playing field.

What is your preferred format for these discussions?

AEMA members have participated in all manner of stakeholder engagement activities including stakeholder and Working Group meetings, round tables, and one-on-one discussions. However, to derive value from any sort of engagement activity, knowledge and information must be exchanged both ways. AEMA members continue to suggest ideas for the evolution of the DR participation model for both the HDR resource in the DRA/CA as well as the ability of DR resources to participate in Operating Reserves as it does in other markets. The IESO must explain in detail the ‘challenges’ to this evolution

and present a plan to fix those challenges as the electricity system becomes more decentralized with an increasing number of resources and resource types participating in the market.

What questions about demand response participation and product design would stakeholder benefit from having IESO clarify?

1. The two priorities for 2020 were identified in discussions with IESO staff in spring 2019 and formally brought forward in July 2019. *Why did it take a year for the IESO to identify internal ‘challenges’ on the identified priorities?*
2. Software, tools and modelling challenges have all been used as a reason to limit the participation of the DR (HDR/aggregated HDR) resource since procurement of DR was transferred to the IESO from the Ontario Power Authority in 2014. *What changes have been initiated within IESO software and tools to enable the participation of the DR resource fully in the market?*
3. Since the responsibility for the DR resource was shifted to the IESO in spring 2014, *why have decisions been made to not fully enable DR as a resource despite the stated desire of the IESO to integrate the resource into its market mechanisms?*
4. *Why weren’t the identified challenges enabled/resolved via the Market Renewal Project?*
5. *What are the timelines the IESO proposes for discussions/engagement on the objectives of the DR resource recognizing that the first Capacity Auction is scheduled for December 2020; a resource adequacy engagement is expected to be announced this fall; and an update on the evolution of the Capacity Auction has not been made/nor a second Capacity Auction has been scheduled?*

As noted above, AEMA members will continue to be involved in discussions with IESO staff and other stakeholders on how to leverage the value the DR resource to the electricity system. We have always advocated that the resource needs to be better integrated within the Ontario electricity system as is done in most other competitive electricity markets in the world. Although we are pleased that the IESO recognizes the need for better integration, we are deeply disappointed that the discussion will limit the ability to make improvements to the current HDR resource that will provide the Ontario electricity system with more value, while improving the experience for the contributors – Ontario’s employers.

AEMA appreciates attention and consideration of our recommendations and looks forward to continuing to work with the IESO to ensure customers are being well served and save on energy bills in a sustainable fashion. Please do not hesitate to contact me at [REDACTED] (+ [REDACTED]) regarding specific recommendations herein.

Best regards,



Katherine Hamilton
Executive Director, AEMA