



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00408-R00		
Subject:	Participation		
Title:	Capacity Based Demand Response – New Class of Market Participant		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	2, 11	Appendix:	
Sections:	Chapter 2, sections 1.2.2.2, 2.1.1.9 (new), Appendix 2.2, section 1.1.6A (new), 1.3.1, 1.4.1, Chapter 11 definitions		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel review	July 15, 2014
2.0	Draft for Technical Panel review	August 19, 2014
3.0	Publish for Stakeholder Review and Comment	August 28, 2014
4.0	Submitted for Technical Panel Vote	September 23, 2014
5.0	Recommended by Technical Panel; Submitted for IESO Board Approval	September 30, 2014
6.0	Approved by IESO Board	November 13, 2014
Approved Amendment Publication Date:		November 13, 2014
Approved Amendment Effective Date:		MR-00408-R00, R04 – Dec 5, 2014 MR-00408-R01-R03 – Mar 4, 2015

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to introduce a new market participant class, “demand response market participant.” This new market participant class will facilitate the participation in demand response (DR) programs, and include the transitional capacity based DR program and DR pilot program.

This proposal is based on stakeholder consultation as part of the Demand Response Working Group (DRWG) and public sessions.

Further information on the DRWG can be found on the IESO’s website at:

<http://www.ieso.ca/DRWG>

Background

Ontario’s 2013 Long-Term Energy Plan¹ (LTEP) established a target “to use Demand Response to meet 10% of peak demand by 2025.” The LTEP also signaled that the responsibility for existing and new DR initiatives will be transferred from the OPA to the IESO.

The IESO’s goal is to achieve greater value and more economic use of DR in Ontario by incorporating these resources into the IESO administered markets and developing new opportunities for DR to participate in the market.

Transitioning of Existing OPA DR3 Contracts to an IESO DR Transitional Market:

As part of this effort, the IESO is looking to transfer required OPA DR3 contract provisions into a market based approach enabled by the IESO market rules.

Where appropriate, and in consultation with stakeholders, the IESO will seek to make changes to the current DR3 design when developing market rules to reflect participant feedback and to align the treatment of DR3 resources with other resources in the IESO-administered markets.

Capacity Associated with OPA DR2 Contracts:

With respect to the capacity associated with the OPA DR2 contracts that expire at the end of 2014, the IESO has allocated a portion of this capacity to implement DR pilot initiatives to test its capability to meet system needs. The new class of DR market participants will include entities participating in pilot programs.

¹ [Ministry of Energy - Long-Term Energy Plan 2013](#)

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Note: Please refer to MR-00410-R00-R01 for the market rule amendments relating to DR pilots.

New Market Participant Class:

The existing market rule definitions of market participant classes, with one exception, specify activities that are included in section 57 of OEB Act and as a result require the market participant to have an OEB licence. For example:

- “wholesale consumer” means a person who purchases electricity or ancillary services in the IESO-administered markets or directly from another person;
- “wholesale customer” means a market participant who takes supply from the IESO-controlled grid for its own consumption or for sale;
- “retailer” means a person who retails electricity;
- “retail”, with respect to electricity, means (a) to sell or offer to sell electricity to a consumer; (b) to act as agent or broker for a retailer with respect to the sale or offering for sale of electricity; or (c) to act or offer to act as an agent or broker for a consumer with respect to the sale or offering for sale of electricity;

It is not expected at this time that entities participating solely in DR programs, specifically the transitional capacity based or DR pilot programs will require an OEB licence. The proposed framework of creating a new “demand response market participant” class is comparable to what already exists for financial market participants.

It is expected that a person may wish to participate solely in DR programs: e.g. a person that aggregates retail load solely for the purpose of providing demand response or, in the case of a direct participant, offers their own load for participation in DR.

All of the above factors result in the need for market rule changes that recognize participation in programs such as DR. These changes would facilitate entry and participation in DR programs administered by the IESO.

Discussion

It is proposed to add a new class of market participant in the market rules for participation in DR programs, similar to that already existing for participation in financial markets. This addition includes:

- Chapter 2, section 2: A new market participant class: “demand response market participant”;
- Chapter 11, definitions: A new defined term for “demand response market participant,” means a person who is a market participant that is a DR aggregator or DR direct participant that participates only in capacity based DR or DR pilot programs.

A person wishing to participate in the IESO-administered markets solely through activity in the capacity based DR program and/or DR pilot programs, would apply to be authorized as a “demand response market participant.” This would require registration through the IESO’s market entry process, including re-registration if applicable, authorization and payment of applicable market entry fees. The proposed definition of DR market participant does not prohibit other classes of market participants from participating in DR programs, as long as they meet the IESO’s requirements for the respective programs. For example, a market participant authorized under the wholesale consumer class may be eligible to participate in the DR capacity or pilot programs.

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Consequential to the creation of the new class for DR market participant and corresponding new DR security requirements (see R04), section 1.2.2.2 on the conditions for participation will be amended to specify that the DR market participants shall satisfy the DR security requirements (and not the existing prudential support obligations) in the authorization process.

Appendix 2.2 – DR Market Participant Communication Requirements

In order to ensure communication is maintained between DR market participants and the IESO, new section 1.1.6A obligates that a commercially available telephone and electronic mail address be provided to the IESO by each DR market participant. This form of communication is consistent with operation under the OPA DR3 program and will be maintained for operation under the IESO's capacity based demand response program.

Further to the required form of communication, amendments to sections 1.3.1 and 1.4.1 of Appendix 2.2 are required to exclude the obligations for a DR market participant to install and maintain a dispatch workstation and a participant workstation. Both workstations are not required for participation in the capacity based demand response program or the demand response pilots.

Chapter 11 - Other Defined Terms:

In addition to the new defined term, "demand response market participant," the following new defined terms are required to translate existing OPA DR3 contract terms into the IESO market rules are proposed:

- "capacity based demand response program" means the temporary program used by the IESO to transition the OPA's contract based DR3 program into the IESO-administered market.
- "demand response direct participant" means a person who is not a DR aggregator and whose DR contributors are owned by the DR market participant and the facilities in which the DR contributors reside are controlled by the DR market participant.
- "demand response aggregator" means a person that is not a DR direct participant and aggregates more than one DR contributor to provide a portion of the aggregator's monthly contracted MW for the contracted dispatch period as outlined in the aggregator's DR schedule.
- "demand response contributor" means an interruptible load or behind the meter generator that is owned by a demand response direct participant, or with whom a demand response aggregator has enforceable rights, and in either case, who will provide a portion of the monthly contracted MW for the contracted dispatch period as outlined in the demand response schedule.
- "demand response schedule" means one or more transaction schedules which binds the DR market participant and the IESO to specific terms of demand reduction including, but not limited to , the schedule commencement date, schedules term, monthly contracted MW, option, hours of availability, demand response account, and payment terms.

Note: As part of MR-00410-R00: Demand Response Pilot Programs, the following definition will be added to Chapter 11 definitions:

- "demand response pilot program" means a demonstration project, or projects which test the

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

<p>technical capabilities of a demand response service referred to in section 16 of Chapter 7.</p>
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PART 4 – PROPOSED AMENDMENT**Chapter 2****1. Introduction****1.2 Participation**

- 1.2.0 A person who has been issued a *licence* by the *OEB* pursuant to Part V of the *Ontario Energy Board Act, 1998*, is subject to all *market rules* relating to the activities authorized by such *licence* and all other applicable *market rules*.
- 1.2.1 No person shall participate in the *IESO-administered markets* or cause or permit electricity to be conveyed into, through or out of the *IESO-controlled grid* unless that person has been authorized by the *IESO* to do so pursuant to this Chapter, provided however that this section 1.2.1 shall not apply to require any authorization in respect of physical loop flows inadvertently arising as a result of transactions between entities located outside the *IESO control area*.
- 1.2.2 No person shall be authorized by the *IESO* to participate in the *IESO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IESO-controlled grid* unless the *IESO* is satisfied:
- 1.2.2.1 on the basis of the certification, tests, and inspections referred to in section 6.2, that the person satisfies the technical requirements referred to in that section applicable to all *market participants*;
- 1.2.2.2 that the person, if it applies to participate in the *real-time markets*, will either satisfy the prudential support requirements of Appendix 2.3 and any other financial requirements set forth in the *market rules* applicable to all *market participants* and the *IESO-administered market* in which the person wishes to participate, or in the case of a *demand response market participant*, satisfy the demand response security requirements in section 5A;

- 1.2.2.3 that the person agrees to be bound by these *market rules* by executing the *participation agreement*;
- 1.2.2.4 that the person holds a *licence* permitting the person to engage in one or more of the activities described in section 57 of the *Ontario Energy Board Act, 1998*, unless:
 - a. the person is exempt by regulation enacted pursuant to the *Ontario Energy Board Act, 1998* from the obligation to hold such a *licence*; or
 - b. the person is not engaging in an activity for which the person requires a *licence* pursuant to section 57 of the *Ontario Energy Board Act, 1998*; and
- 1.2.2.5 [Intentionally left blank – section deleted]
- 1.2.2.6 on the basis of the documentation referred to in section 3.1.2.2, that the person, if it applies for authorization as a *market participant* other than solely as a *financial market participant*:
 - a. is registered for the federal harmonized value-added tax system under Part IX of the *Excise Tax Act* (Canada); or
 - b. is resident in Canada and is, by virtue of *applicable law*, not liable to pay the federal harmonized value-added tax imposed under Part IX of the *Excise Tax Act* (Canada).

2. Classes of Market Participants

2.1.1 The following classes of persons may apply for authorization to participate in the *IESO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IESO-controlled grid*:

- 2.1.1.1 *generators*;
- 2.1.1.2 *distributors*;
- 2.1.1.3 *wholesale sellers*;
- 2.1.1.4 *wholesale consumers*;
- 2.1.1.5 *retailers*;
- 2.1.1.6 *transmitters*;
- 2.1.1.7 *financial market participants*; ~~and~~ and
- 2.1.1.8 [Intentionally left blank – section deleted]

2.1.1.9 demand response market participants.

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Appendix 2.2 – Technical Requirements: Voice Communication, Monitoring and Control, Workstations and Re-Classification of Facilities

1.1 Voice Communications

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1.1.6A Each demand response market participant shall provide to the IESO and maintain one commercially available telephone and electronic mail address for the purposes of communicating with the IESO.

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1.3 Dispatch Workstations

1.3.1 Each market participant other than a boundary entity or a demand response market participant shall, for the purposes of:

- 1.3.1.1 the provision to the IESO of real-time information required by the IESO to direct the operations of the IESO-controlled grid;
- 1.3.1.2 if the person is or will be subject to dispatch by the IESO, the receipt of *dispatch instructions*; and
- 1.3.1.3 the exchange with the IESO of other information required to be submitted or received pursuant to Chapter 7 or Chapter 8, other than the submission, receipt of confirmation of and validation of *dispatch data, TR bids or TR offers in the TR market and physical bilateral contract data*,

provide, install and maintain a *dispatch workstation* that meets the specifications and other requirements set forth in the *participant technical reference manual* and that is configured to support communication with the real-time communication network channel or channels provided by the IESO in the manner described in the *participant technical reference manual*.

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1.4 Participant Workstations

- 1.4.1 Subject to section 1.6, each *market participant* other than a demand response market participant shall, for the purposes of conducting secure communications or transactions with the *IESO* using *IESO*-supplied or approved software, provide, install and maintain a *participant workstation* that meets the specifications, definitions and other requirements set forth in the *participant technical reference manual*.

Chapter 11

1. Definitions

capacity based demand response program means the temporary program used by the *IESO* to transition the *OPA*'s contract based DR3 program into the *IESO-administered market*;

demand response aggregator means a person that is not a *demand response direct participant* and aggregates at least one *demand response contributor* to provide a portion of the aggregator's monthly contracted MW for the contracted *dispatch* period as outlined in the aggregator's *demand response schedule*;

demand response contributor means an interruptible load or behind the meter generator that is owned by a *demand response direct participant*, or with whom a *demand response aggregator* has enforceable rights, and in either case, who will provide a portion of the monthly contracted MW for the contracted *dispatch* period as outlined in the *demand response schedule*.

demand response direct participant means a person who is not a *demand response aggregator* and whose *demand response contributors* are owned by the *demand response market participant* and the facilities in which the *demand response contributors* reside are controlled by the *demand response market participant*;

demand response market participant means a person who is a *market participant* that is a *demand response aggregator* or *demand response direct participant* that participates only in the *capacity based demand response program* or the *demand response pilot program*;

demand response schedule means one or more transaction schedules which binds the *demand response market participant* and the *IESO* to specific terms of *demand reduction* including, but not limited to, the schedule commencement date, schedule term, monthly contracted MW, option, hours of availability, *demand response account*, and *payment terms*.

Note: As part of MR-00410-R00: Demand Response Pilot Programs, the following definition will be added to Chapter 11 definitions:

demand response pilot program means a demonstration project, or projects which test the technical capabilities of a *demand response* service referred to in section 16 of Chapter 7;

PART 5 – IESO BOARD DECISION RATIONALE

This rule amendments package (MR-00408-R00-R04) translates the Ontario Power Authority's (OPA) wholesale DR3 contract terms into the IESO market rules.



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00408-R01		
Subject:	Reliability		
Title:	Capacity Based Demand Response – Participation and Operation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	7	Appendix:	
Sections:	17 (new)		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to specify the term and termination, eligibility, program parameters, and operation of the capacity based demand response (DR) program.

This proposal is part of the market rule amendment package which will transfer the required OPA DR3 contract provisions into a market based approach enabled by the IESO market rules.

Background

Ontario's 2013 Long-Term Energy Plan² (LTEP) established a target “to use Demand Response to meet 10% of peak demand by 2025.” The LTEP also signaled that the responsibility for existing and new DR initiatives will be transferred from the OPA to the IESO.

As part of this effort, the IESO is looking to transfer the OPA DR3 contracts into a market based approach enabled by the IESO market rules.

Link to the OPA DR3 contract:

[OPA DR3 Contract](#)

Discussion

It is proposed to insert a new section 17, “Capacity Based Demand Response Program” into chapter 7 of the market rules as follows:

Section 17.1 – Term and Termination

- Insert section 17.1.1 to specify that the capacity based DR program will be a temporary program for the purposes of transitioning the OPA DR3 contracts into the IESO-administered market. The program will cease to continue on the delivery date of the first DR auction which immediately precedes the expiration of the last DR3 contract. This section also specifies that those participants with contracts that:
 - Expire on March 31, 2015 may participate in the capacity based DR program until the delivery of the IESO's first DR auction, subject to IESO eligibility requirements (section 17.1.1.1);
 - Expire after March 31, 2015 may participate in the capacity based DR program until the delivery date of the DR auction that immediately precedes the expiry of the DR3 contract, subject to IESO eligibility requirements and the termination of the DR3 contract (section 17.1.1.2).

² [Ministry of Energy - Long-Term Energy Plan 2013](#)

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Section 17.2 – Eligibility Requirements for the Capacity Based Demand Response Program

- Insert section 17.2.1 to specify that a DR market participant will be eligible to participate in the capacity based demand program, provided that the participant:
 - 17.2.1.1 – Demonstrates to the satisfaction of the IESO of its ability to provide a minimum level of demand response, as specified in the applicable market manual;
 - 17.2.1.2 – Operates, maintains and has submitted an IESO approved measurement and verification (M&V) plan at the participant’s own expense, in accordance with the applicable market manual. The participant shall not make subsequent changes to that plan without pre-authorization from the IESO;
 - 17.2.1.3 – Registers its facilities or DR contributors, as applicable, to the satisfaction of the IESO, in accordance with the applicable market manual;
 - 17.2.1.4 - Be either a direct participant or an aggregator who has enforceable rights on its DR contributors to reduce load when called upon;
 - 17.2.1.5 – Provide the appropriate level of DR security (see R04).
- Insert section 17.2.2 and 17.2.3 to specify that the IESO may refuse or remove a DR market participant, temporarily or permanently, if continued participation would negatively impact the reliable operation of the IESO-controlled grid.
- Insert section 17.2.4 to specify chapters of the market rules that will **not** apply to DR market participants, in order to avoid any obligations in the market rules which should not be applicable to them:
 - Chapter 2, sections 5 and 8, Chapter 2, Appendix 2.3;
 - Chapters 4, 5, 6, 8, 10;
 - Chapter 7, sections 2 and 7.

All other market rules will apply to DR market participants unless explicitly identified in this section 17.2.4. This type of provision is similar to existing section 4.8.5 of Chapter 8, which specifies that Chapters 4, 5, 6, 7, 10, and Chapter 8 other than section 4 are not applicable to financial market participants.

Section 17.3 – Capacity Based Demand Response Program Parameters

- Insert section 17.3.1 to specify that a DR market participant may, in respect of a DR schedule, reduce the monthly or daily MW of that DR schedule, subject to the requirements per the applicable market manual and approval by the IESO.
- Insert section 17.3.2 to specify that a DR market participant must confirm to the IESO in accordance with the applicable market manual, that any activated demand reduction was not also applied to any other demand reduction program or service. This is intended to avoid any double counting/payments for the same reduction of demand.

Section 17.4 – Operation of the Capacity Based Demand Response Program

- Insert section 17.4.1 to specify that DR market participants will be eligible for compensation, including monthly payments, for providing demand reductions as per their DR schedule, in

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

accordance with the applicable market manual.

- Insert section 17.4.2 to allow the IESO to include capacity based demand response load reductions as standing offers for use in the pre-dispatch schedule. The IESO will determine the quantities and prices of such standing offers, which will be published by the IESO. The IESO will also publish the times and quantities of demand reductions when scheduled. Lastly, the prices and quantities of standing offers will be monitored and assessed by the IESO to assess their impacts, and whether any changes to the prices and quantities are warranted.
- Insert section 17.4.3 to allow the IESO to issue a standby notification to a DR market participant for a given dispatch day, in accordance with the applicable market manual.
- Insert section 17.4.4 to specify that a DR market participant shall confirm its intent to provide DR once a standby notification has been sent to the IESO as per the applicable market manual. A participant is eligible to receive compensation once it has confirmed its intent to provide DR.
- Insert section 17.4.5 to allow the IESO to issue an activation notice after the issuance and receipt of a confirmation notice for the corresponding dispatch day, in accordance with the applicable market manual.
- Insert section 17.4.6 to specify that a DR market participant must be fully available to reduce load once receiving an activation notice, in accordance with the applicable market manual. If the participant is not fully available for demand reduction availability set-offs may apply.
- Insert section 17.4.7 to specify that a DR market participant who has confirmed their intent to provide DR, must activate its demand reduction in accordance with the applicable market manual, upon the receipt of an activation notice unless the activation would endanger any person, damage equipment or violate any applicable laws.
- Insert section 17.4.8 to specify that a DR market participant shall reply to standby notification and comply with activation notices unless performance exemptions have been applied. The performance exemptions will be detailed in the applicable market manual.
- Insert section 17.4.9 to allow DR market participants to use planned non-performance events if they are unable to reduce load for a period of time. Participants shall notify the IESO in advance, and receive IESO approval as per the procedure in the applicable market manual.
- Insert section 17.4.10 to specify that unless a performance exemption or planned non-performance event is in effect (proposed sections 17.4.8 and 17.4.9), the IESO may reduce compensation to DR market participants in part or in entirety, as well as apply off-sets in accordance with the applicable market manual, if the participant did not reduce its demand when activated. Participants may also be subject to compliance enforcement actions in accordance with section 6 of Chapter 3.
- Insert section 17.4.11 to specify that if a DR market participant does not comply with a performance obligation required by the market rules, the DR market participant may be subject to performance set-offs as specified in the applicable market manual.
- Insert section 17.4.12 to specify that the maximum hours of demand reduction per year will be detailed in a DR market participants DR schedule, as per the applicable market manual.
- Insert section 17.4.13 to obligate the IESO to report, in accordance with the applicable market

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

manual, any demand reduction that occurred under the capacity based demand response program.

PART 4 – PROPOSED AMENDMENT**Chapter 7**
-----**17. Capacity Based Demand Response Program****17.1 Term and Termination**

17.1.1 *The capacity based demand response program shall be a temporary program to transition the OPA's existing DR3 contracts to an IESO administered program as follows:*

17.1.1.1 *Demand response market participants who hold DR3 contracts that will expire on March 31, 2015 may, subject to meeting the eligibility requirements described in section 17.2, participate in the IESO's capacity based demand response program until the delivery date of the IESO's first demand response auction;*

17.1.1.2 *Demand response market participants who hold DR3 contracts that will not expire until after March 31, 2015 may, subject to meeting the eligibility requirements described in section 17.2 and upon termination of such DR3 contract, elect to participate in the IESO's capacity based demand response program until the delivery date of the demand response auction which immediately precedes the expiry date of the DR3 contract.*

The IESO's capacity based demand response program shall cease on the delivery date of the demand response auction which immediately precedes the expiry date of the last DR3 contract.

17.2 Eligibility Requirements for the Capacity Based Demand Response Program

17.2.1 *A demand response market participant is eligible to participate in the capacity based demand response program provided that the demand response market participant:*

- 17.2.1.1 demonstrates to the satisfaction of the IESO that it can provide a minimum level of demand reduction, as specified in the applicable market manual;
- 17.2.1.2 operates, maintains, and has submitted to the IESO a measurement and verification plan, at the demand response market participant's own expense, in accordance with the applicable market manual and the IESO has approved the plan. The demand response market participant shall not modify, vary or amend in any material respect any of the features or specifications of any project without first requesting IESO authorization and approval in accordance with the applicable market manual;
- 17.2.1.3 registers its facilities or demand response contributors as applicable, to the satisfaction of the IESO, in accordance with the applicable market manual;
- 17.2.1.4 is either: (i) a demand response direct participant who owns each demand response contributor and who will be able to reduce the demand of an eligible project as outlined in the applicable market manual; or (ii) a demand response aggregator with enforceable rights over each demand response contributor that will enable the demand response aggregator to reduce the demand of an eligible project as outlined in the applicable market manual; and
- 17.2.1.5 has provided demand response security in accordance with section 5A of Chapter 2.
- 17.2.2 The IESO may refuse participation in the capacity based demand response program by a demand response market participant if their participation would negatively impact the reliable operation of the IESO-controlled grid.
- 17.2.3 The IESO may remove a demand response market participant that is participating in the capacity based demand response program if its continued participation would negatively impact the reliable operation of the IESO-controlled grid. The IESO may temporarily remove a demand response market participant that is participating in the capacity based demand response program if the conditions on the IESO-controlled grid are such that their participation would negatively impact the reliable operation of the IESO-controlled grid.
- 17.2.4 The following provisions of the market rules shall not apply to a demand response market participant that is authorized by the IESO to participate only in the capacity based demand response program:
- 17.2.4.1 Chapter 2, sections 5 and 8, Chapter 2, Appendix 2.3;
- 17.2.4.2 Chapters 4, 5, 6, 8, 10; and
- 17.2.4.3 Chapter 7 sections 2 and 7.

17.3 Capacity Based Demand Response Program Parameters

- 17.3.1 A demand response market participant may, in respect of any given demand response schedule, reduce the monthly or daily MW of that demand response schedule, subject to the requirements per the applicable market manual and approval by the IESO.
- 17.3.2 A demand response market participant participating in the capacity based demand response program shall confirm in accordance with the applicable market manual to the IESO, that any activated demand reduction was not also applied to any other demand reduction program or service.

17.4 Operation of the Capacity Based Demand Response Program

- 17.4.1 A demand response market participant shall be eligible to receive compensation, including monthly payments in respect of all demand response schedules for providing demand reduction and availability for demand reduction by its projects, in accordance with the applicable market manual.
- 17.4.2 The IESO may include consumption reductions resulting from the capacity based demand response program as standing offers for use in the pre-dispatch schedule, subject to the following conditions:
- 17.4.2.1 the quantities in such standing offers and the prices shall be determined by the IESO and such quantities and prices shall be published by the IESO;
 - 17.4.2.2 the IESO shall publish the times and quantities of the capacity based demand response reductions when the program has been scheduled to reduce consumption; and
 - 17.4.2.3 the prices and quantities of the standing offers shall be monitored by the IESO to assess their impacts, and any changes to the prices and quantities may be made as necessary.
- 17.4.3 The IESO may, in accordance with the applicable market manual, issue a standby notice to a demand response market participant in respect to a given dispatch day.
- 17.4.4 Following the issuance of a standby notice by the IESO under section 17.4.3, a demand response market participant shall issue to the IESO, in accordance with the applicable market manual, a confirmation of its intent to provide a demand reduction for the dispatch day. Upon this notification the demand response

market participant shall be eligible to receive compensation for providing demand reduction.

- 17.4.5 The IESO may, in accordance with the applicable market manual, following the issuance of a standby notice issued in accordance with section 17.4.4, and corresponding receipt of a confirmation from the demand response market participant, issue an activation notice to the demand response market participant for the corresponding dispatch day.
- 17.4.6 Prior to the time that a demand response market participant is required to reduce load pursuant to an activation notice, the demand response market participant must be fully available for curtailment in accordance with the applicable market manual. Where a demand response market participant is not fully available for curtailment, an availability set-off may apply as per the applicable market manual.
- 17.4.7 A demand response market participant who has issued to the IESO a confirmation notice in accordance with section 17.4.4, shall, upon the IESO's direction, activate its demand reduction in accordance with the applicable market manual unless such activation would endanger the safety of any person, damage equipment, or violate any applicable law.
- 17.4.8 A demand response market participant shall reply to standby notifications where required pursuant to this section 17.4, and comply with activation notices received, unless any of the performance exemptions specified in the applicable market manual apply.
- 17.4.9 A demand response market participant will be permitted to use planned non-performance events, provided that the demand response market participant notifies the IESO, and receives IESO approval in advance as per the procedures and criteria in the applicable market manual.
- 17.4.10 Subject to sections 17.4.8 and 17.4.9, if a demand response market participant does not reduce its demand when activated in accordance with section 17.4.8, the IESO may reduce compensation to a demand response market participant in part or in its entirety, as well as apply performance off-sets in accordance with the applicable market manual. The demand response market participant may also be subject to compliance actions in accordance with section 6 of Chapter 3.
- 17.4.11 If a demand response market participant does not comply with a performance obligation required by the market rules, the demand response market participant may be subject to performance off-sets or other actions as specified in the applicable market manual.
- 17.4.12 The maximum hours of demand reduction in response to activation notices per calendar year shall, in accordance with the applicable market manual, be set out in each demand response schedule.

17.4.13 The IESO shall report, in accordance with the applicable market manual, any demand reduction activation under the capacity based demand response program and the results thereof.

PART 5 – IESO BOARD COMMENTS

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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00408-R02		
Subject:	Settlements and Billing		
Title:	Capacity Based Demand Response- Settlements		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	9	Appendix:	
Sections:	1.1, 2.1, 4.7H (new), 4.8		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to enable the settlement of the capacity based demand response (DR) program.

Specifically, this amendment proposes to:

- permit the IESO to determine settlement amounts for the capacity based DR program using existing means for OPA DR3 contract holders, which may not be via a registered wholesale meter; and
- allow the IESO to recover costs for the capacity based DR program from Ontario consumers via an uplift charge.

This proposal is part of the market rule amendment package which will transfer required OPA DR3 contract provisions into a market based approach enabled by the IESO market rules.

Background

See R01.

Discussion

It is proposed to amend section 1.1 “Application and Purpose” of Chapter 9 of the market rules as follows:

- Insert sub-section 1.1.2.17 to specify the rights and obligations of the IESO and DR market participants in determining, billing for and effecting payment in respect to financial obligations arising from the capacity based DR program and the DR pilot program. This will allow the IESO to incorporate the DR programs into the settlement of the IESO-administered markets.

Metering & Verification (M&V):

Currently the market rules only permit a registered wholesale meter to be used for determining settlement amounts, with some limited exceptions. Many existing entities that hold OPA DR3 contracts do not have registered wholesale meters that meet IESO standards, and have indicated that meeting the existing wholesale metering requirements of Chapter 6 of the market rules would be a significant barrier to entry into the IESO-administered markets, in terms of costs and time required to effect the necessary changes.

Such a significant barrier to entry is inappropriate given:

- the proposed need for the participant to submit a load reduction M&V plan to the IESO for approval (refer to MR-00408-R01); and

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

- the proposed right of the IESO to audit actual load reduction information submitted under the M&V plan and to recover or distribute any adjustments.

For the transitional period prior to the enduring, long-term solution of a DR auction mechanism, the IESO will allow existing metering and verification processes currently used by participants as part of their OPA DR3 contracts.

It is proposed to amend section 2.1 “Metering and Metering Responsibilities” of Chapter 9 of the market rules as follows:

- Insert sub-section 2.1.1A.5 to allow the IESO to determine settlement amounts for the capacity based DR program on the basis of an IESO approved M&V plan which may not be via a registered wholesale meter.

Uplift:

It is proposed to insert a new section 4.7H, “Capacity Based Demand Response Program” in Chapter 9 of the market rules as follows:

- Insert section 4.7H.1 to obligate DR market participants participating in the capacity based DR program to provide to the IESO DR measurement data in the time and manner specified in the applicable market manual. Where DR measurement data is not provided to the IESO in the time and manner specified by the IESO, the DR market participant may be subject to settlement data set-offs, as detailed in the applicable market manual. The IESO would be permitted to audit at any time, any DR measurement data and supporting information submitted by a DR market participant as a measure to ensure the IESO-administered market is providing appropriate payments for demand reductions undertaken by DR market participants.
- Insert section 4.7H.2 to obligate the IESO to remit capacity based DR program payments, if any, to the applicable DR market participant in the time and manner specified in the applicable market manual.
- Insert section 4.7H.3 to allow the IESO to recover or distribute any previous capacity based DR program payment, or portion thereof, if the IESO’s audit of the DR market participant’s DR measurement data and supporting information indicates that the actual data differed from the submitted data. Any amounts will be recovered from or distributed to market participants in accordance with proposed section 4.8.3 or 4.8.4 below.

It is also proposed to insert a new section 4.8.3 and 4.8.4 under “Additional non-hourly settlement amounts” of Chapter 9 of the market rules as follows:

- Obligate the IESO, at the end of each energy market billing period, to recover from market participants, as specified in the applicable market manual, any compensation paid in that energy market billing period to capacity based DR program participants in accordance with section 4.7H (sections 4.8.3, 4.8.3.1); and
- Obligate the IESO to distribute to market participants, as specified in the applicable market manual, any adjustments to capacity based DR program participants in accordance with section 4.7H (sections 4.8.4, 4.8.4.1).

The method for recovery from, and distribution to, market participants shall be outlined in the

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

applicable market manual and consistent with the global adjustment calculation, which is allocated only to Ontario loads.

PART 4 – PROPOSED AMENDMENT**Chapter 9****1. Introductory Rules****1.1 Application and Purpose**

1.1.1 This chapter applies to:

1.1.1.1 the *IESO*; and

1.1.1.2 market participants.

1.1.2 This chapter sets out the respective rights and obligations of the *IESO* and of *market participants* in determining, billing for and effecting payment in respect of financial obligations arising from the *IESO-administered markets*, other provisions of the *market rules*, the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, including the following:

1.1.2.1 [Intentionally left blank – section deleted]

1.1.2.2 the *energy market*;

1.1.2.3 the operating reserve market;

1.1.2.4 congestion management;

1.1.2.5 transmission rights (TRs);

1.1.2.6 [Intentionally left blank – section deleted]

1.1.2.7 operating deviations;

1.1.2.8 ancillary services and reliability must-run contracts;

1.1.2.9 transmission service charges and connection charges collected by the *IESO*;

1.1.2.10 rural rate protection;

- 1.1.2.11 the IESO administration charge;
 - 1.1.2.12 penalties and fines;
 - 1.1.2.13 any debt retirement charge;
 - 1.1.2.14 rebates and other payments arising from market power mitigation measures;
 - 1.1.2.15 the day-ahead commitment process; ~~and~~
 - 1.1.2.16 forecasting services relating to *variable generation*; ~~and~~
 - 1.1.2.17 the capacity based demand response program and demand response pilot program.
-

2. Settlement Data Collection and Management

2.1 Metering and Metering Responsibilities

- 2.1.1 Subject to section 2.1.1A, every *meter* utilised for determining *settlement amounts* according to this Chapter must be a *registered wholesale meter (RWM)*.
 - 2.1.1A Nothing in section 2.1.1 shall be construed as requiring the *IESO* to determine *settlement amounts* on the basis of an *RWM* in circumstances where:
 - 2.1.1A.1 it is permitted to use another *meter* for this purpose pursuant to section 3.1.4A; or
 - 2.1.1A.2 in circumstances where the *IESO* has determined that determination of *settlement amounts* using a *metering installation* whose registration has expired is required for the efficient operation of the *IESO-administered markets*; or
 - 2.1.1A.3 [Intentionally left blank – section deleted]
 - 2.1.1A.4 the *IESO* has not permitted the use of the *RWM* for determining *settlement amounts* for the reason specified section 4.2.2A of Chapter 6; ~~or~~
 - 2.1.1A.5 the *IESO* is determining *settlement amounts* related to the *capacity based demand response program* specified in section 17 of Chapter 7 using a measurement and verification plan submitted and approved under section 17.2.1.2 of Chapter 7.
-

4.7H Capacity Based Demand Response Program

- 4.7H.1 A demand response market participant participating in the capacity based demand response program shall provide demand response measurement data to the IESO in the time and manner specified in the applicable market manual. Where demand response measurement data is not provided to the IESO in the time and manner specified by the IESO, the demand response market participant may be subject to demand response measurement data set-off detailed in the applicable market manual. At any time, the IESO may audit any submitted demand response measurement data and supporting information and the demand response market participant shall provide such information in the time and manner specified by the IESO.
- 4.7H.2 The IESO shall remit capacity based demand response program payments, if any, to the applicable demand response market participant on a demand response account level, in the manner specified in the applicable market manual.
- 4.7H.3 The IESO shall recover from or distribute to a demand response market participant any previous capacity based demand response program payment or portion thereof if the audit of the demand response market participant's demand response measurement data and supporting information submitted under section 4.7H.1 indicates that the actual data differed from the submitted data. Any amounts recovered or required to be distributed to a demand response market participant under this section shall be distributed to or recovered from market participants in accordance with sections 4.8.3 and 4.8.4.

4.8 Additional Non-Hourly Settlement Amounts

- 4.8.1 The IESO shall, at the end of each *energy market billing period*, recover from market participants, on a pro-rata basis across all allocated quantities of energy withdrawn at all *RWMs* and *intertie metering points* during all *metering intervals* and *settlement hours* within that *energy market billing period*, the following amounts:
- 4.8.1.1 any compensation paid in that *energy market billing period* by the IESO pursuant to section 5.3.4 of Chapter 4;
 - 4.8.1.2 any compensation paid in that *energy market billing period* by the IESO pursuant to section 5.3.4 of Chapter 5;
-
- 4.8.2 The IESO shall, at the end of each *energy market billing period*, distribute to market participants, on a pro-rata basis across all allocated quantities of energy withdrawn at all *RWMs* and *intertie metering points* during all *metering intervals* and *settlement hours* within that *energy market billing period*, the following amounts:

- 4.8.2.1 any compensation received by the *IESO* for the provision of *emergency energy* pursuant to section 4.4A.1 of Chapter 5;

4.8.3 The *IESO* shall, at the end of each *energy market billing period*, recover from *market participants*, in the manner specified in the applicable *market manual*, the following amounts:

- 4.8.3.1 any compensation for *demand response market participants* paid in that *energy market billing period* by the *IESO* pursuant to section 4.7H; and

Note: The following proposed section 4.8.3.2 is proposed in MR-00410-R02: Demand Response Pilot Programs:

- 4.8.3.2 any compensation for *demand response market participants* paid in that *energy market billing period* by the *IESO* pursuant to section 4.7I.

4.8.4 The *IESO* shall distribute to *market participants*, in the manner specified in the applicable *market manual*, the following amounts:

- 4.8.4.1 any adjustments to *demand response market participant* payments pursuant to section 4.7H; and

Note: The following proposed section 4.8.4.2 is proposed in MR-00410-R02: Demand Response Pilot Programs:

- 4.8.4.2 any adjustments to *demand response market participant* payments pursuant to section 4.7I.

PART 5 – IESO BOARD COMMENTS

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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00408-R03		
Subject:	Compliance		
Title:	Capacity Based Demand Response - Compliance		
Nature of Proposal:	<input type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	3	Appendix:	
Sections:	6.3		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules in Chapter 3, to reflect the unique collateral construct applicable to demand response (DR) market participants, participating in the capacity based DR program.

This proposal is part of the market rule amendment package which will transfer the required OPA DR3 contract provisions into a market based approach enabled by the IESO market rules.

Background

See R01.

Discussion

Chapter 3 of the market rules will be applicable to DR market participants in its entirety. For the purposes of DR market participants participating in the capacity based DR program, it is proposed to edit section 6.3, “Event of Default” (6.3.1, 6.3.1.2, 6.3.1.3, 6.3.2.2, 6.3.3, and 6.3.3.2), as DR market participants will have a unique collateral construct in Chapter 2 (see R04). All instances of the term “prudential support” in section 6.3 will be replaced with “prudential support or demand response security.”

PART 4 – PROPOSED AMENDMENT

Chapter 3

6.3 Events of Default

6.3.1 An event of default occurs if a market participant or the person that has provided prudential support or demand response security in relation to the market participant:

6.3.1.1 does not make a payment in full required under the *market rules* when due;

- 6.3.1.2 fails to provide payment in full of any amount claimed by the *IESO* under any *prudential support* or demand response security;
- 6.3.1.3 fails to provide and maintain *prudential support* or demand response security required to be supplied under the *market rules* within the time required;

6.3.2 A *market participant* shall notify the *IESO* immediately upon:

- 6.3.2.1 the occurrence of an *event of default* or any circumstance that may give rise to an *event of default* referred to in sections 6.3.1.4 to 6.3.1.11; or
- 6.3.2.2 the appointment of a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction in respect of any property of the *market participant* or the *market participant's prudential support* provider or demand response security provider.

6.3.3 Where a *market participant* or a person providing *prudential support* or demand response security on behalf of that *market participant* commits an event of default, the *IESO* may:

- 6.3.3.1 issue to the *market participant* a *notice of intent to suspend* stating that the *market participant* will be suspended unless it remedies the *event of default* within 2 *business days* or such longer period as specified in the notice;
 - 6.3.3.2 immediately draw upon part or all of the *market participant's prudential support* or demand response security for either the amount of any money owing to the *IESO* under the *market rules* or where the *market participant's prudential support* or demand response security is due to expire or terminate and has not been replaced as required under section 5.2.5 or 5A.2.3 of Chapter 2, the undrawn part of the *prudential support* or demand response security notwithstanding the provisions of section 5.7.2.5 of Chapter 2 until such time as the *market participant* has replaced its *prudential support* or demand response security; and
 - 6.3.3.3 set-off any amounts due or credited to the *market participant* under the *market rules*, including those set out in section 4.8.2 of Chapter 9, and any program administered through the billing and *settlement* systems of the *IESO* against any amounts owed by the *market participant*.
-

PART 5 – IESO BOARD COMMENTS

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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00408-R04		
Subject:	Participation		
Title:	Capacity Based Demand Response – Demand Response Security		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	2, 11	Appendix:	
Sections:	Chapter 2 sections 5A (new), 7, Chapter 11 Definitions		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to add a new section 5A, which specifies the security requirements for demand response (DR) market participants who participate in the capacity based DR program.

This proposal is part of the market rule amendment package which will transfer the required OPA DR3 contract provisions into a market based approach enabled by the IESO market rules.

Background

The existing OPA DR3 contracts require contract holders to provide security (i.e. collateral) to mitigate credit risk.

Similarly, as a condition of participating in the real-time markets or conveying electricity through the IESO-controlled grid, market participants who are net debtors must provide the IESO with prudential support to mitigate credit risk.

For the transfer of existing OPA DR3 contracts into an IESO market based approach, the IESO is proposing to use the existing methodology used in DR3 contracts, with some minor modifications (e.g. only accepting letters of credit as collateral, specifying the terms and conditions for drawing on a letter of credit consistent with existing IESO market rule provisions related to prudential support).

An enduring security/prudential support construct will be developed for the enduring DR auction process at a later time.

Discussion

It is proposed to add a new section 5A, “Capacity Based Demand Response Program – Demand Response Security Requirements” as follows:

- Insert section 5A.1.1 to specify that section 5A sets forth the nature and amount of DR security that must be provided by a DR market participant as a condition of participation in the capacity based DR program. DR market participants must provide and maintain DR security on an on-going basis;
- Insert section 5A.2 which specify the obligations on DR market participants:
 - 5A.2.1: initially and continually satisfy the obligations of this section regarding the provision of DR security;
 - 5A.2.2: provide to the IESO at all times, DR security the value of which is not less than the DR market participants DR security obligation. For this purpose, the

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

aggregate value of the DR security shall be equal to the value of undrawn or unclaimed amounts of DR security provide by the DR market participant;

- 5A.2.3 if DR security is due to expire or terminate, at least 10 business days prior to expiry/termination, the DR market participant must provide replacement DR security;
- 5A.2.4 where any part of DR security otherwise ceases to be current or valid for any reason, the DR market participant must immediately notify the IESO, and provide within 2 business days replacement DR security;
- 5A.2.5 if, as a result of the IESO exercising its rights under section 6.3.3.2 of Chapter 3, the remaining DR security held by the IESO is less than the DR market participants security obligation, the DR market participant must within 5 business days provide additional DR collateral.
- Insert section 5A.3 to specify that the IESO will determine, in accordance with the applicable market manual, a DR market participant's DR security obligation as follows:
 - 5A.3.1.1/5A.3.1.2: for a DR market participant, an amount equal to the highest monthly contracted MW in any season multiplied by a price specified in the applicable market manual (\$10,000/MW).
- Insert section 5A.4.1 on the acceptable forms of DR security:
 - 5A.4.1.1 (a), (b): a letter of credit provided by a bank named in a Schedule to the Bank Act, S.C. 1991, c.46 or credit union licensed by the Financial Services Commission of Ontario with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency (list found at: [IESO Participant Registration](#) , and includes Standard and Poor's, Moody's, Dominion Bond Rating Service).
 - 5A.4.2: the following provisions will apply to letters of credit:
 - Issued subject to either The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No. 600 or The International Standby Practices 1998;
 - The IESO shall be named as beneficiary in each letter of credit, each letter of credit shall be irrevocable, partial draws on any letter of credit shall not be prohibited and the letter of credit or the aggregate amount of all letters of credit shall be in the face amount of at least the amount specified by the IESO;
 - The only conditions for the IESO to draw on the letter of credit shall be the occurrence of an event of default by or in respect of the demand response market participant and a certificate of an officer of the IESO that the IESO is entitled to draw on the letter of credit in the amount specified in the certificate as at the date of delivery of the certificate;
 - The letter of credit shall either provide for automatic renewal (unless the issuing bank advises the IESO at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one year. In either case it is the responsibility of the DR market participant to maintain the requisite amount of DR security. Where the IESO is advised that a letter of credit is not to be renewed

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

or the term of the letter of credit is to expire, the DR market participant shall arrange for and deliver alternative DR security within the time frame mandated by the market rules so as to enable the demand response market participant to be in compliance with the market rules; and

- By including a letter of credit as part of its DR security, the DR market participant represents and warrants to the IESO that the issuance of the letter of credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the DR market participant.

Consequential to the creation of a unique DR security obligation for DR market participants, it is proposed to also edit section 7.1.1 of Chapter 2 to specify that the events of default relating to either prudential support or demand response security, are specified in section 6.3 of Chapter 3.

It is also proposed to add a new defined term in Chapter 11:

- “demand response security” means the obligations owed to the IESO by a third party and other forms of security for the financial obligations of a demand response market participant, in the form set forth in section 5A of Chapter 2.

Note: As specified in MR-00408-R01, the default levy provisions of the market rules will not be applicable to DR market participants.

PART 4 – PROPOSED AMENDMENT

Chapter 2

5A. Capacity Based Demand Response Program – Demand Response Security Requirements

5A.1 Purpose

5A.1.1 This section 5A sets forth the nature and amount of *demand response security* that must be provided by a *demand response market participants* as a condition of participation in the *capacity based demand response program*, and the manner in which *demand response market participants* must provide and maintain such *demand response security* on an on-going basis in order to protect the *IESO* and *market participants* from payment defaults.

5A.2 Demand response market participant Obligations

- 5A.2.1 Each demand response market participant shall initially and continually satisfy the obligations set forth in this section 5A.2 with regard to the provision of demand response security as a condition of participating in the capacity based demand response program.
- 5A.2.2 Each demand response market participant shall provide to the IESO and at all times maintain demand response security the value of which is not less than the demand response market participant's demand response security obligation. For this purpose, the aggregate value of the demand response security shall be equal to the value of the undrawn or unclaimed amounts of demand response security provided by the demand response market participant.
- 5A.2.3 If demand response security previously provided to the IESO by a demand response market participant is due to expire or terminate and, upon expiry or termination of the existing demand response security the total demand response security held by the IESO in respect of that demand response market participant will be less than the demand response market participant's demand response security obligation then, at least ten business days prior to the time at which the existing security is due to expire or terminate, the demand response market participant must provide to the IESO replacement demand response security which will become effective no later than the expiry or termination of the existing collateral, such that the total demand response security provided is equal to the demand response market participant's demand response security obligation.
- 5A.2.4 Where any part of the demand response security provided by a demand response market participant otherwise ceases to be current or valid for any reason, the demand response market participant must immediately so notify the IESO and provide to the IESO, within two business days, replacement demand response security such that the total demand response security provided is at least equal to the demand response market participant's demand response security obligation.
- 5A.2.5 If, as a result of the IESO exercising its rights under demand response security provided by a demand response market participant in accordance with section 6.3.3.2 of Chapter 3, the remaining demand response security held by the IESO in respect of that demand response market participant is less than the demand response market participant's demand response security obligation, the demand response market participant must, within five business days of receiving notice of the exercise by the IESO of such rights, provide the IESO with additional demand response security such that the total demand response security provided is equal to the demand response market participant's demand response security obligation.

5A.3 Calculation of Demand Response Security Obligations

5A.3.1 The IESO shall determine, in accordance with the applicable market manual, for each demand response market participant, a demand response security obligation as follows:

5A.3.1.1 for a demand response direct participant, an amount equal to the highest monthly contracted MW in any season multiplied by a price specified in the applicable market manual per MW; and

5A.3.1.2 for a demand response aggregator, an amount equal to the highest monthly contracted MW in any season, without regard to the ramping period) multiplied by a price specified in the applicable market manual per MW.

5A.4 Acceptable Forms of Demand Response Security

5A.4.1 A demand response market participant's demand response security must be met through the provision of the IESO and the maintenance of demand response security in the following form:

5A.4.1.1 a guarantee or irrevocable commercial letter of credit, which in both cases must be in a form acceptable to the IESO and provided by:

- a. a bank named in a Schedule to the Bank Act, S.C. 1991, c.46 with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency; or
- b. a credit union licensed by the Financial Services Commission of Ontario with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency.

5A.4.2 The following provisions shall apply to a guarantee or irrevocable letter of credit provided in section 5A.4.1:

5A.4.2.1 the letter of credit shall provide that it is issued subject to either The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No. 600 or The International Standby Practices 1998;

5A.4.2.2 the IESO shall be named as beneficiary in each letter of credit, each letter of credit shall be irrevocable, partial draws on any letter of credit shall not be prohibited and the letter of credit or the aggregate amount of all letters of credit shall be in the face amount of at least the amount specified by the IESO;

5A.4.2.3 the only conditions on the ability of the IESO to draw on the letter of credit shall be the occurrence of an event of default by or in respect of

the demand response market participant and a certificate of an officer of the IESO that the IESO is entitled to draw on the letter of credit in accordance with the provisions of the market rules in the amount specified in the certificate as at the date of delivery of the certificate;

5A.4.2.4 the letter of credit shall either provide for automatic renewal (unless the issuing bank advises the IESO at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one (1) year. In either case it is the responsibility of the demand response market participant to maintain the requisite amount of demand response security. Where the IESO is advised that a letter of credit is not to be renewed or the term of the letter of credit is to expire, the demand response market participant shall arrange for and deliver alternative demand response security within the time frame mandated by the market rules so as to enable the demand response market participant to be in compliance with the market rules; and

5A.4.2.5 by including a letter of credit as part of its demand response security, the demand response market participant represents and warrants to the IESO that the issuance of the letter of credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the demand response market participant.

7. Payment Default Procedure

7.1.1 The *events of default* relating to payment and either prudential support or demand response security, as well as the rights and obligations of the IESO and *market participants* upon the occurrence of such *event of default*, are specified in section 6.3 of Chapter 3.

Chapter 11

1. Definitions

demand response security means the obligations owed to the IESO by a third party and other forms of security for the financial obligations of a demand response market participant, in the form set forth in section 5A of Chapter 2;

PART 5 – IESO BOARD COMMENTS

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