

To: Susan Harrison

September 10th, 2014

Agenda item No.3. Capacity Markets:

I support your recommendation of option 1 reporting structure for the stakeholder engagement. I am not entirely sure how these working groups are assembled so I would like to receive more information on who/how people are chosen for this assignment.

I am very interested in the idea of a capacity market. From the research that I have done, I believe that a capacity market would be beneficial for the consumers in the province of Ontario. Research does suggest that an energy-only market is the most economically efficient design but with the province's history of superfluous involvement, it is widely believed that it would not be openly accepted. A capacity market provides a hybrid solution to today's ever changing needs and at the surface, would appear to be the best design to move forward with.

In discussions with many consumers who are responsible for their company's energy decisions, it is very apparent that cost, transparency and efficiency top the concerns of consumers. I am pleased to see that these areas are also listed as the "Common Principles" as the IESO goes forward with their work on capacity markets.

Design Elements

I support the design elements listed in the handout. The devil will be in the details in each area. Such as, "Compensation for New Resources" – will this take into account Technology Neutral theories? What happens if the province 'directs' limits/targets on types of generation and how/or will that be factored into the design (i.e. Storage, Solar, Wind, etc.).

Of concern to consumers is the amount of pollution that will be released from electricity generation. A question on consumer's minds is will a new capacity design system increase the pollution in the air that I will have to breathe? Will renewable sources of generation be given an equal economic chance to bid into an auction? Or is there another vehicle to equal out the playing field – for example, should a cap and trade system (or carbon tax) be looked at? Pricing carbon emissions through a carbon tax is one of the most powerful incentives that governments have to encourage companies and households to pollute less by investing in cleaner technologies and adopting greener practices. This may well be out of scope of the

IESO, however, I think we could look at how other markets are dealing with generation emissions (Western Climate Initiative – Ontario is listed as a partner with them, California Cap & Trade, North America 2050, Regional GHG Initiative, Pacific Coast Collaboration, Midwest GHG Reduction Accord, and many other Countries outside North America such as Sweden who have had significant success in adopting these markets).

Broader Impacts

To minimize cost to the consumers in the province, it is imperative that we examine and build on experience in other markets. I see that the government in the UK is implementing their auction and regulatory bodies. Also the positive experience in PJM and NYISO as well as the issues faced in Texas and W. Australia all need to be looked at to ensure we have the best made in Ontario solution.

Education and Awareness will continue to be a very necessary step to ensure the consumer's areas of concern are being addressed (cost, transparency, etc.).

Need to foresee the impact on consumers energy/sustainability programs to minimize negative changes. As an example, the Global Adjustment (GA) increased so dramatically that some consumers no longer felt the need to hedge their annual supply of electricity (just a few years ago, upwards of 60-70% of the bill was recommended to be hedged whereas today that percentage has dropped to 0%-20%). The GA also makes consumer bills less comprehensible, potentially undermining consumer acceptance of power sector policies. Programs for large users serve to further mute price signals to these customer classes and diminish the incentive for companies to seek contracts on their own. A capacity market must make pricing transparent to all and not follow the design of the GA.

Some studies suggest that implementation of a capacity market has led to an increase in CO2 emissions from the power sector (example: SWECO did a study on capacity markets in Europe in Feb 2014).

Demand response programs may also be impacted by capacity markets – in some areas of Europe where a capacity market is operating, the volatility of pricing is reduced but that has led to a reduction in demand response participation as the pricing differential may not be significant enough.

Finally and most importantly, consumers will need to see an overall price valuation demonstrating that a capacity market will save them money on their entire bill (a reduction on the wholesale side means little to them if the other parts of their bill go up because of a cap market).

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