

Energy Payments for Economic Activation of DR Resources Break-out Discussion Documentation

Posted: October 17, 2019

At the October 10, 2019 meeting, through break-out discussion, participants gave feedback to help identify additions / refinements to the scope of the research and analysis that will be carried out to inform the IESO's decision. The focus question for discussion was:

What are the potential pros and cons of providing DR resources with energy payments for in-market activations?

The notes below are intended to be a record of the discussion that took place among stakeholders. These represent stakeholder input and the IESO did not attempt to reframe the input. Some groups also gave additional feedback not strictly categorized into pros and cons. Stakeholders can provide additional feedback and report any corrections on these notes by October 25, 2019 to engagement@ieso.ca.

All meeting material is available on the [engagement webpage](#).

GROUP 1

Included stakeholders from the generator, DR, LDC and energy-related businesses and services stakeholder communities.

PROS:

- Increased participation of demand response in energy and capacity markets
 - Contributors ask aggregators – what do I get when activate? There is currently no incentive.
- Lower energy and capacity market prices
- Will incent participation in the energy market – this is a pro for all consumers. This may not lower the bid (depending on the type of demand response resource), but will help
- Will help utilize under-used demand response resources. It was also noted that it is okay for some demand response resources to only be called upon at certain times due to their marginal costs. The system needs different types of resources to meet various needs.
- Will result in extra profits

Energy Payments for Economic Activation of DR Resources Break-out discussion documentation – October 10, 2019 meeting

- Will incent participation on a rational basis (consistent with the MRP energy stream principles)
- Participants will be incented to participate based on their capability
- Will improve the competitiveness of industrials (all loads will benefit if the net benefits test is passed)
- HDRs may be enabled to set price and this could help with price formation
- Will create a better signal for loads not participating in the market directly
- Benefits can change with changing market conditions (e.g., benefits would grow if natural gas prices increase)
- Will incent real positions in day ahead market
- May incent load shifting

CONS:

- May price out certain capacity products (due to increased competition)
 - Potential reliability concerns given demand response testing performance?
- Operational requirements are important
- Need to balance what you are buying with performance
- Will increase uplifts
- Cannot supply all of market with demand response
- May be a fairness issue with respect to suppliers
- May appear as a double payment (i.e., demand response avoids cost of consumption plus energy payment)

GROUP 2

Included stakeholders from the generator, DR, and research stakeholder communities.

PROS:

- Current design limits participation e.g., for residential
- Recognize that demand response can respond quickly (with the right incentives)
- Demand response can be very cost competitive
- Adding demand response (diversification) to market brings more resources to compete that can improve long term supply certainty, reduce costs (vs more expensive resources / new builds) if the market is designed with a “level playing field”
- Demand response goes “extinct” if no economic offset to reduce energy
- Solves problem (i.e., demand) by reducing demand instead of adding supply
- Ontario does not have a supply problem, but has a balancing problem (using existing resources better)

QUESTIONS AND OTHER INPUT:

- Do you need a capacity obligation to provide energy (i.e., is this a pre-requisite?)
- What we do now must be compatible with future market design
- RPP, Class B volumetric rate designs are barriers
- Long term implications: in Ontario, there is a lack of data / studies

GROUP 2

Included stakeholders from the DR, consumer, and industry association stakeholder communities.

PROS:

- Energy price-based payment would allow demand response to participate based on their own opportunity cost
- Potential for lower auction and energy bids
- More control and visibility on the demand side