

May 30, 2017

Ms. Rosemarie T. Leclair
Chair & CEO
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Leclair:

Re: Market Surveillance Panel Monitoring Report

I am writing in response to your letter of May 2, 2017, requesting that I advise you of: a) the steps that the IESO plans to take in response to the recommendations made in the May 2017 Market Surveillance Panel (MSP) *Monitoring Report on the IESO Administered Electricity Markets*, and the timelines for completion of those steps; and b) in the IESO's view, whether any actions or market rule amendments should be taken or initiated in addition to those reflected in the MSP recommendations.

The IESO's responses to the four recommendations directed to the IESO in the most recent MSP report are addressed below. As noted, while we expect to address these matters in 2017, we will also ensure that the panel is kept advised of progress.

Dispatchable Loads & Operating Reserve (OR) Compensation

Recommendation 3-1, MSP Monitoring Report for November 2015 – April 2016:

The IESO should take steps to ensure that dispatchable loads are only compensated for the amount of operating reserve they were capable of providing in real-time. More fundamentally, the IESO should explore options for ensuring unavailable OR is not scheduled in the first instance.

The IESO agrees that market participants should not be compensated for services that they are unable to provide. The Market Rules require all market participants, including dispatchable loads, to maintain accurate dispatch data and respond to IESO dispatch instructions for both energy and operating reserve. The IESO will assess what remedies are available to respond to the Panel's recommendation in 2017. These remedies could include but are not limited to changes to market design through Market Rules or investigations of non-compliance.

Transmission Rights Market

Recommendation 3-2, MSP Monitoring Report for November 2015 – April 2016:

The IESO should revise the methodology used to set the intertie failure charge to include congestion rents that an intertie trader avoids when it fails a scheduled transaction for reasons within its control.

The IESO agrees with the Panel's recommendation on intertie transaction failures; an intertie trader should not benefit by avoiding congestion rents when failing intertie transactions for reasons within its own control. Market Rules are in place that allow for the recovery of congestion rents that have been avoided, or Transmission Rights payments, when the intertie trader fails its transactions for illegitimate reasons. The IESO will consider the structure of intertie failure charges in 2017 and determine an appropriate avenue to address the issue identified by the Panel.

Recommendation 4-1, MSP Monitoring Report for November 2015 – April 2016:

- A. The IESO should revise the manner in which it allocates disbursements from the Transmission Rights Clearing Account such that disbursements are proportionate to transmission service charges paid over the relevant accrual period.*
- B. The IESO should not disburse any further funds from the Transmission Rights Clearing Account until such time that Recommendation 4-1(A) has been addressed.*

The current disbursement methodology of the Transmission Rights Clearing Account is to allocate disbursements to both internal and external loads based upon their share of demand. In 2017 the IESO will initiate a review of the disbursement allocation methodology to ensure it is both consistent with the intent and purpose of the Transmission Rights Clearing Account, and is aligned with current market and system needs. The outcome of the review, which will be completed and communicated to the Panel by the end of 2017, could also inform the Transmission Rights discussions that will take place as part of the IESO's Market Renewal Program. Given that the allocation method is Market-Rule based, the outcome of the review will also inform whether changes to the Market Rule are required.

Meanwhile, until the review of the disbursement allocation methodology is completed, the IESO will continue with the semi-annual disbursements, as directed by the IESO Board and as detailed in Market Manual 5.5: Physical Markets Settlement Statements.

Demand Response Auction

Recommendation 4-2, MSP Monitoring Report for November 2015 – April 2016:

The IESO should reassess the value provided by the capacity procured through its Demand Response auction in light of Ontario's surplus capacity conditions, as well as the stated preference of the government and the IESO (through its Market Renewal initiative) for technology-neutral procurement at least cost.

The IESO was assigned responsibility for developing Demand Response (DR) in Ontario in 2013 with a mandate to develop DR to meet system and policy objectives in the short and longer term. Since that time, the IESO has developed a comprehensive work plan to ensure contracted resources are integrated cost effectively into the market. As a result of these initiatives, the annual cost of maintaining DR has dropped by almost 30%, while participation has increased significantly and new innovative approaches are continuing to emerge.

In the short term, DR is contributing to the reliability of the Ontario grid as an integrated resource that is dispatched when it is economic relative to other resources. Over the longer term, the IESO agrees with the MSP that a technology-neutral capacity auction is a more cost effective way to procure capacity. The IESO has launched a stakeholder engagement to design such a mechanism as part of the Market Renewal Program. The learnings from the DR auction will help inform the design of a future incremental capacity auction and demonstrate how such a mechanism could work in Ontario.

The IESO is also working together with stakeholders through the DR Working Group (DRWG). The IESO and the DRWG are committed to continuously improving the efficiency of the DR auction and working together to assess priorities for 2017. The DRWG work plan includes a number of projects to improve the efficiency of the DR auction, including a review of how DR is activated in the market.

Please do not hesitate to get in touch if you have any additional questions on these matters.

Yours truly,



Bruce B. Campbell

c: Glenn Leslie, Chair, Market Surveillance Panel
Peter Gregg, IESO CEO-Designate