ONTARIO POWER AUTHORITY

120 Adelaide Street West
Suite 1600
Toronto, Ontario M5H 1T1

T 416-967-7474
F 416-967-1947
www.powerauthority.on.ca

June 18, 2012

Rosemary T. Leclair
Chair and Chief Executive Officer
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Leclair: Rose

RE: Market Surveillance Panel Monitoring Report

Thank you for your letter of May 22, 2012 and for the copy of the MSP report for our reference. The Ontario Power Authority is pleased to provide you with its response to the Market Surveillance Panel's recommendation 3.3 regarding the Global Adjustment allocation methodology and the Demand Response suite of programs.

The Demand Response programs and the Global Adjustment allocation methodology offer different demand management opportunities which both contribute to managing the electricity system. The DR suite of programs, first launched in 2007, includes two in market programs: DR 3, a firm committed peak reduction program which can be called year round; and DR 2, a firm committed load shifting program. DR 3 and 2 are structured around baselines based on the previous electricity use: 10 days of prior consumption in the case of DR 3 and 2 years of prior consumption in the case of DR 2. The GAM allocation methodology is a voluntary tool aimed at the top five peak hours in the year. In sum, the DR programs offer a committed and dispatchable resource that can be planned for and selectively dispatched for system benefit, while the GAM allocation methodology offers a pricing inducement to manage load out of expensive periods.

The OPA's preliminary analysis suggests that there was minimal overlap between DR 3 and the GAM allocation methodology in 2011. For example, there was one instance of coincidence between DR dispatch and GAM High-5 hours in 2011. The coincidental occurrences came at a total maximum DR activation price, based on utilization payments to all participants, of approximately $65,500 (exclusive of any contractual set-offs, etc.). Class A customers represented approximately 70% of DR3 participants at that time, so the total maximum DR activation overlap would be just under $46,000 for 2011.

Of interest, the evidence suggests that the DR3 program complements the curbing of peak demand. On July 22, 2011 a High-5 hour occurred at 1 pm while DR 3 was dispatched between 2 PM and 7PM that day. There is a strong likelihood that actual demand (absent DR) would have been higher during the period of DR dispatch which would have moved the high 5 hour for that day into the dispatch period.

The OPA is undertaking further analysis of the interplay between DR programs and the GAM allocation methodology as part of the regular evaluation of the DR programs. This analysis is being undertaken with the assistance of an independent evaluation contractor. The evaluator is looking at the effectiveness and value of the DR programs, and, where appropriate, will make recommendations for the improvement of programs. At this time, we expect the DR program review to be complete and available in August. Consideration of any recommendations would follow the release of that report.

In addition, OPA will continue to work closely with the IESO over the next few months to coordinate our combined efforts at reviewing the concerns identified by the MSP as well as the broader context for future Demand Response efforts.

We look forward to continuing the discussion when the results of our evaluations are complete.

Best regards,

Colin Andersen

Colin Andersen
Chief Executive Officer