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Market Surveillance Panel | Comité de surveillance du marché

BY E-MAIL

February 14, 2019

Mr. Cam Carver
Director
NRG Peaks Corp.
5 Hazelton Avenue, Suite 200
Toronto, ON M5R 2E1

Dear Mr. Carver:

Re: Market Surveillance Panel Report on the Industrial Conservation Initiative

Thank you for your letter dated January 8, 2019 addressed to the Chair & Chief Executive Officer of the Ontario Energy Board regarding the Market Surveillance Panel's (MSP) recently published report entitled *The Industrial Conservation Initiative: Evaluating its Impact and Potential Alternative Approaches* (Report). Your letter was forwarded to the MSP for our consideration, and we would like to take this opportunity to address what appear to be certain misunderstandings regarding the Report.

We note your emphasis on the importance of peak demand reductions achieved under the Industrial Conservation Initiative (ICI) in meeting capacity needs. Although the Report does not opine on the criticality of the ICI in meeting either current or future capacity needs, it does clearly acknowledge the peak reductions achieved by Class A consumers, as well as the possibility that these reductions may have alleviated the need to build large, centrally-procured, grid-connected generating capacity.

The Report goes on to note that the incentives created by the ICI appear to be changing the nature of a portion of generation investments in the province away from large, centrally-procured, grid-connected investments to small, privately-funded, on-site ones. The Report identifies potential inefficiencies associated with this shift. It also recognizes that improving long-term efficiency requires a better understanding of how the ICI is

affecting investment in new capacity and recommends that data be gathered to enhance that understanding.

The Report does not suggest that peak pricing be abolished. The MSP supports pricing mechanisms that fairly allocate costs based on who induced and/or benefits from them. The Report concludes that fairness would be enhanced if the cost of peaking generation continued to be recovered on the basis of consumption during peak demand hours, with the cost of non-peaking generation being allocated to all consumers that benefit from that capacity. Adopting such an approach – and addressing the MSP’s other concerns – would maintain the incentives and potential benefits of the current ICI, while promoting more efficient and fairer outcomes.

It is clear from the Report that the MSP does not support allocating the cost of non-peaking generation based on the ICI mechanism. Despite benefitting from non-peaking resources, Class A consumers can use the ICI to avoid all Global Adjustment costs, which some manage to do. Whether you delineate between peaking and non-peaking costs using the method used by the MSP, the alternative discussed in your letter (which was noted in the Report) or any other, non-peaking costs are substantial and the ICI allows Class A consumers to avoid them.

With respect to the potential ancillary benefits of the ICI mentioned in your letter, they are matters of policy that go beyond the boundaries of Ontario’s wholesale electricity market and are therefore not addressed in the Report.

The MSP continues to support changes to the ICI as proposed in the Report, in the service of improved efficiency and fairness in Ontario’s electricity sector.

Yours truly,



Glenn Leslie
Chair, Market Surveillance Panel