



January 8, 2019

Ms. Rosemarie Leclair  
Chair & Chief Executive Officer  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

Dear Ms. Leclair,

**Re: Objection to Market Surveillance Panel report on the Industrial Conservation Initiative dated December 2018.**

The Market Surveillance Panel (MSP) serves an important independent role for Ontario electricity rate payers to monitor, investigate, and report on activities related to the wholesale electricity market in the province. In providing its findings and recommendations, Ontarians expect the MSP to rely on well researched and correct data. Unfortunately, and of significant concern to NRG Peaks and our customers, which represent a considerable portion of the maneuverable Class A demand that responds to the Industrial Conservation Initiative (ICI), the recent MSP report on the ICI program falls short of this expectation in several material respects. As a result, one must assign low confidence in the MSP's views and recommendations in this Report.

Most notably, the MSP appears to misunderstand the value of the ICI program to peak reduction in the Province. On page 17 of the report, there are a number references to there being no need for system-wide capacity to meet demand in Ontario. The Independent Electricity System Operator (IESO) does not agree. The IESO's December 2018 *Reliability Outlook*, ironically published the same day as the release of the MSP Report, and the IESO's previous *18 Month Outlook* published in October 2018, both demonstrate that the 1,500MW of peak reduction due to ICI is critical to meeting Ontario's peak capacity requirements – and therefore system reliability – for at least the next 5 years. Beyond those 5 years, the IESO's current forecasts indicate the need for additional peaking capacity of approximately 1,400MW. Any material reduction in ICI peak demand reduction would create an immediate capacity shortfall and would increase the 1,400MW needed in 2023 even further. Not attributing the appropriate value to the necessary peak reduction contributed by ICI greatly underestimates the value of the ICI program to the system.

Similarly, the MSP Report asserts that the Province is in "surplus supply conditions" and that "perversely, the incentive for Class A consumers to reduce the peak demand....is strongest when there is

ample supply and wholesale market prices are low". This seems to suggest that costs in the electricity system are being driven by energy, not capacity. As previously mentioned, this is incorrect. While Ontario may be in surplus at times for energy, we do not have surplus capacity. It is also worth noting that when the Hourly Ontario Energy Price (HOEP) rises, the incentive to reduce peak demand during critical hours will still be substantial. Further, should HOEP prices rise sharply this would incent demand reduction for a much greater period of time than just the 5 peak hours pertinent to ICI.

Later in the report on page 19, the MSP argues that only approximately 20% of Global Adjustment costs are associated with "peaking resources" and the remainder is for non-peaking resources. This allocation is inconsistent with the MSP's own assertion that Ontario is in an energy surplus state. Given this fact, a significant portion of the value and costs associated with all types of generation in the Province is related to their contribution to peak demand. The IESO's *Reliability Report* indicates the assumed peak contribution of each type of generation during peaks. Instead of using the IESO's information, the MSP has made an allocation of zero percent for nuclear, wind, solar, conservation, etc. to the peak capacity of the Province. As a result of this faulty assumption, the MSP has not accurately captured the cost of peak capacity in the Province and therefore has compounded their undervaluing of ICI's contribution to peak reduction.

Despite the MSP report's title that suggests alternatives will be reviewed, no such analysis is contained within the report other than to say "Ontario has a multitude of options available to it" to address capacity needs. Had that analysis been completed, it would have demonstrated that the assertion made is not so simple. For example, how the MSP proposes to replace 1,500MW of high availability demand reduction with no incremental costs to the system, as ICI does, is not analyzed nor is a proposed alternative put forward.

Not mentioned in the MSP report are the ancillary benefits of the ICI program such as enhanced competitiveness for Ontario industries as they compete abroad and the associated benefits to Ontario suppliers and labour forces from those activities. Removing or materially altering ICI is likely to damage Ontario's industrial base as power pricing would become more expensive for many of the Province's major employers, including special vulnerability to those in the northern parts of the Province and those which are considered energy intensive/trade exposed (EITE). The impact on Class A customers who have invested in equipment and processes over the past decade to adapt their operations to work within the ICI program also needs to be considered and respected.

The MSP, which is currently made up of only two individuals and therefore lacking sufficiently broad industry expertise within the panel, appears to have completed this report without consultation with industry experts, Class A industrial loads, market participants or fellow Ontario agencies, and as a result has not accurately reflected practical experience or well-established data. As a result, the MSP has failed to provide a complete analysis of the ICI program and its efficiency.

To help improve future studies by the MSP, NRG Peaks will complete a detailed review of the MSP's report and provide a more thorough overview of areas which appear inconsistent with well established

industry facts and experience. In the meantime, we encourage you to view the MSP's conclusions with regards to ICI as unreliable in the absence of a more complete review.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Carver".

Cam Carver  
Director  
NRG Peaks Corp

cc: The Honourable Doug Ford, Premier  
The Honourable Greg Rickford, Minister of Energy, Northern Development and Mines  
The Honourable Todd Smith, Minister of Economic Development, Job Creation and Trade  
The Honourable Vic Fedeli, Minister of Finance and Chair of Cabinet  
Mr. Steve Orsini, Secretary of the Cabinet  
Mr. Giles Gherson, Deputy Minister, Red Tape and Regulatory Burden Reduction  
Mr. Stephen Rhodes, Deputy Minister of Energy  
Ms. Shirley Phillips, Deputy Minister of Economic Development, Job Creation and Trade  
Mr. Greg Orencsak, Deputy Minister of Finance  
Mr. Peter Gregg, President and CEO, Independent Electricity System Operator