



Power to Ontario.
On Demand.

Reducing the 10-minute synchronized OR requirement Operating Reserve Initiative 2

Comments on the Cost Benefit Analysis

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- Purpose of today's discussion
 - Review written comments
 - Provide IESO preliminary response
 - Provide opportunity for follow-up discussion issues from all stakeholders
- Discuss going forward agenda

- The IESO sought written comment with respect to:
 - (i) whether there are material costs or benefits ignored in the draft CBA and, if so evidence of their existence and an estimate of their significance or how you would propose to value them, and
 - (ii) more general comments on the use of CBA as a means to facilitate a more rigorous consideration of rule amendments and whether, and how, the content can be better organized in future CBAs
- Received written comments from OPG and APPrO

1. CBA Success Criterion

i. IESO should be clear on criteria

Without firmly-established criteria potential for debate even when agreement on costs and benefits

ii. Kaldor-Hicks criterion should be adopted

Weighted-surplus approach can lead to options adopted that reduce efficiency

Weighted-surplus approach based on desire to reflect social considerations

Determining weights introduces “maddening complexity” to any market rule change.

2. CBA Implementation

- i. Careful in approach to quantify consumer and producer surplus
 - Producer surplus definition is not “profit”
 - Offer curve may not include fixed costs
- ii. Sensitivities relating to cost and benefit uncertainty
- iii. All cost and benefits should be included
 - No need for pre-determined screens
 - Environmental effects
- iv. Net benefit should have a high likelihood
- v. Discounting of future effects demands flexibility
- vi. CBA filings should be complete

1. Appropriate Design of a CBA
 - i. Balance between guidance and flexibility
 - ii. OR example too narrow an issue to be definitive template for future CBAs
 - iii. Iterative approach

1. Lack of confidence in the estimated efficiency gains due to assumptions of 10 spin cost
 - Use of shadow prices and assumption of liner supply curve while logical is an estimate at best
 - Approach lacks rigour
2. Anticipated change allowing DL to provide 10-spin will impact future efficiency gains attributable to the reduction of 10-spin requirement
 - CBA should be revised to consider impact of expected change in 10-spin providers
3. Information provided on reliability impact is insufficient
 - Concerned that conditions in Ontario and New England are different and there is no assurance that probability of reliability event are the same
 - What is an “Adverse Reliability Event”
4. CBA makes no allowance for the likely detrimental impact on dynamic efficiency which although difficult to quantify would further reduce benefits

Insufficient evidence to make case

CBA with Multiple Options: Projects with Diminishing Benefits

	Project A	Project B	Project A+B	Status Quo
Cost	\$5 M	\$2 M	\$7M	\$0
Benefit	\$6 M	\$6 M	\$7.5 M	\$0
Net Benefit	\$1 M	\$4 M	\$.5 M	\$0

Going Forward