

Use of Peak Demand in Pre-dispatch, Cost-Benefit Analysis and Relevant Decision Criteria

Presentation to Stakeholder Advisory Committee
August 20, 2008



- What decision criteria should the IESO apply when comparing the costs and benefits of proposed changes to market rules, market procedures, or market design?

- IESO through MPWG conducted CBA on use of peak vs. average demand in pre-dispatch.
- **Reliability:**
 - Concerns if use average demand in ramp hours
 - In all other hours, impacts on reliability manageable and immaterial
- **Efficiency:**
 - Annual efficiency gain of \$3.4 million if use average in non-ramp hours
 - Efficiency gains from scheduling fewer relatively expensive imports and replacing them with relatively cheaper internal generation
 - Efficiency gains - lower overall cost to meet Ontario demand
- **Stakeholder Impacts**
 - Expect higher HOEP \$0.72/MWh
 - Reduced IOG uplift \$4.3 million annually
 - Post GA and OPG rebate, \$17 million increase in Ontario Consumers bills
- Other non-quantified benefits such a improved pre-dispatch to real-time price convergence, improved price hedging, reduction in hours when SBG

- Proposal on the table is to use average demand in all non-ramp hours
- A standard CBA, using Kaldor-Hicks decision criterion, would recommend approval of the proposal – efficiency focus
- However, efficiency is typically not the sole criterion for public policy decision; analysis of who gains and who loses can be critical to the final decision.

- When adopt CBA approach, IESO stated that stakeholder impacts, particularly the impact on the province's consumers would be considered and factored into IESO's final recommendations to the Board
- Along with promoting economic efficiency for the sector, a key objective defined by the Electricity Restructuring Act, 2004 is "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

- OEB concluded that anticipated efficiency benefits consistent with the purpose of the Act that speaks to promoting economic efficiency
 - Efficiency benefits of \$13 million annually
- Board acknowledges that the Amendment may result in an increase in average consumer bills, that increase is anticipated to be modest
 - Impact on consumers' bills at most \$6.7 annually

- **What should be the relevant decision criterion applied by the IESO?**

- Dr. Peter Townley, (University of Windsor) to produce report.
 - Report will build on CRA paper on CBA by providing more explanation of how distributional issues can be factored into a CBA, how efficiency improvements can ultimately affect consumers and to discuss practical transition mechanisms for our industry
- Report released to SAC and MPWG in September
- IESO appreciate opinions from SAC on peak vs. average issue and on appropriate decision criteria for IESO
- IESO to make recommendation on peak vs. average issue by end of year