

Memorandum

To: Linked Wheel Economic Dispatch Working Group

From: Jessica Savage, Market Evolution

Date: June 9, 2009

Re: IESO Comments on the Working Group's Assessment of the Costs and Benefits of the Recommended Design Proposal for the Economic Dispatch of Linked Wheels (MR-00338)

Documented below, for the Working Group's review and feedback, are the IESO's comments on the costs and benefits of the recommended design proposal for the economic dispatch of linked wheels. The comments can be classified under two categories: questions about assumptions versus comments on methodology fundamentals.

Questions about Assumptions

- 1) The benefits analysis indicates that when the price difference between MISO and NY is greater than \$10 (including congestion through Ontario), a market participant will capture this opportunity 15% of the time flowing 100MW in either the real-time or day-ahead markets.
 - a. What is the basis for the assumption that linked wheels volumes would increase by 15% as a result of the proposed design change?
 - b. What is the empirical or theoretical basis for the assumption that the linked wheel transaction is 100 MW?

- 2) In 2007, the benefits analysis indicates that in real-time there were 5810 hours in which there was a \$10 wheeling opportunity (including IESO congestion) between MISO and NYISO in either direction. In the day-ahead markets, there were 4087 hours in which there was a \$10 opportunity (including IESO congestion) between MISO and NYISO in either direction. The benefits analysis assumes incremental transactions (15%) based on 9897 hours (5810 + 4087).
 - a. How has the number of hours in which there was a \$10 wheeling opportunity between MISO and NYISO changed since NYISO introduced a tariff to prohibit certain types of linked wheels mid-July 2008?
 - b. What is the rationale for summing the number of \$10 wheeling opportunities in real-time and day-ahead? Doesn't this approach "double-count" the incremental wheeling opportunities?

Comments on Methodology Fundamentals and Outstanding Issues

- 1) The annual benefit of the proposed change is stated to be the “incremental revenue to the IESO.” The incremental revenue is based on the assumption that the proposed design would result in incremental linked wheel transactions that would generate additional revenue from the IESO fee (\$0.87/MWh) and the export transmission tariff fee (\$1.00/MWh).

The benefit analysis asserts that these additional fees would contribute to paying the fixed costs of the IESO and Ontario transmitters so that less of the fixed costs would be borne by Ontario consumers.

- a. This analysis represents only one part of what is required under a cost benefit analysis – the impact on consumers. Although additional revenue from fees may represent a net reduction in Ontario consumers’ payment toward fixed costs, this may or may not represent the true net benefit to the province as a whole.

In general terms, CBA involves first evaluating both the costs and benefits to all individuals affected by a proposed project or policy (such as change to regulations), and then deciding whether the change should be implemented according to a particular decision rule that compares costs and benefits. Loosely speaking, CBA justifies a decision, project, or regulatory change when the gains to individuals resulting from the change exceed the losses to individuals.¹

The proposed market rule change MR-00338 is expected to result in changes in the amount of linked wheels scheduled. It may also affect internal scheduling and the level of internal congestion. These changes are bound to impact other stakeholders (not just consumers) such as internal generators, importers and exporters. A complete CBA would require the assessment of the net impacts on all of these stakeholders.

- 2) The working group should consider if there are any potential unintended adverse outcomes or incentives created for imports, exports or linked wheels under the proposed design.
- 3) The working group should consider the implications of the different treatment of linked wheels versus imports and exports under the proposed design.

¹ The CBA methodology is described in the paper “Overview of Cost-Benefit Analysis and its Applications in Public Policy Decisions” which can be found at http://www.ieso.ca/imoweb/pubs/mear/CRA_Overview-of-Cost-Benefit-Analysis.pdf. For more information about the CBA methodology used by the IESO, refer to the October 30, 2008 presentation to the Stakeholder Advisory Committee: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20081030-Item2_Peak_vs_Avg-Presentation.pdf

Next Steps

For the June 15th, 2009 webcast with the Working Group, it expected that the Working Group will:

- Provide answers to the IESO's questions of clarification regarding the assumptions underlying the benefits analysis;
- Develop a plan for addressing the IESO's comments about the methodology fundamentals and outstanding issues.

As indicated previously, the IESO is not in a position to undertake further analysis on this issue. The IESO's role is to facilitate the Working Group meetings and provide updates to the Technical Panel. If the Working Group does not have the resources to address the outstanding issues, the Working Group may wish to consider hiring a consultant.

The IESO looks forward to clarification on the outstanding issues so that we are in a position to update the Technical Panel at their next meeting.

Yours truly,

Jessica Savage