

Notes from the 25th Meeting of the Market Pricing Working Group

Friday March 3, 2006, 8:30 – 2:30

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	Thoma, Tony	Wescast
Alpajaro, Peter	Bruce Power	Vasquez, Nora	TransCanada Energy
Bell, Brian	Ontario Power Generation	Wu, Lawrence	Total Energy Advice & Management
Benner, Ryan	Dofasco	Yang, Bunli	E4 Inc.
Bettle, Peter	Brascan Power	Travis, Scott	IESO
Blechta, George	Falconbridge	Dieterle, Chris	IESO
Cary, Rob	Cardinal Power	Finkbeiner, Darren	IESO
Duzy, Margaret	TransCanada Energy	Katsuras, George	IESO
Harwood, Shane	Coral Energy Canada	Kozlik, Ken	IESO
Heaton, Randy	Ontario Power Generation	Loughren, Chris	IESO
Kerr, Paul	Coral Energy Canada	MacKenzie, John	IESO
McCuaig, Paul	Powerex	Maria, Gamal	IESO
Poyton, Cliff	EPCOR	Rivard, Brian	IESO
Snelson, Ken	AMPCO	Wilbur, Bill	IESO

Item #1: Review of Action Items from January 20th Meeting

- Action 23.4: IESO staff to review and update the existing MPWG paper on this topic (Issue #7 – Intertie Setting Prices). **Closed.** Updated paper was emailed to members.
- Action 23.5: IESO staff to review and update the existing MPWG papers on this topic (Issues 4, 25 and 31 – Temporal Optimization). **Closed.** A review of the paper on issue #4 indicates that it does not require updating. The two papers on the MIO topic will be updated if the choice is made to pursue MIO pricing.
- Action 24.1: IESO to provide the following with respect to the resolution of the 12 times ramp rate issue, to members in advance of the next meeting: decision criteria (ii) several possible alternatives (iii) how those alternatives reflect the discussions at the meeting. **Closed.** Decision criteria, alternatives and evaluations against the criteria were emailed to members.
- Action 24.2: Confirm the IESO Board mandate to determine if any changes beyond just changing the ramp rate multiplier are within scope. **Closed.** IESO confirmed that the scope of resolution that the IESO Board is expecting is not limited to changing the ramp rate multiplier.

Item #3: 12x Ramp Rate and Temporal Optimization

The minutes here are brief as the feedback received from members at the meeting has been separately documented and included at the end of these minutes.

a) Review of Draft Criteria

IESO staff presented the proposed criteria to be used to evaluate the solution options. There was discussion of the appropriateness of each of the criteria proposed. Robustness will be added to the decision criteria. This is to compare options with respect to their impact (if any) on the evolution of the market. Also, it was suggested that fairness should include the concept of equitable and non-discriminatory treatment. Members suggested that the IESO should provide more context to better understand the criteria and their application.

Action 25.1: IESO to add to the criteria as per the discussion and provide further explanation of the criteria.

b) Review of Options

IESO staff provided a brief overview of three options for resolution, and Ken Snelson presented an option put forward by AMPCO. Members stated that an ancillary service for ramp should be included as another option.

Action 25.2: IESO to add ramp ancillary service to the options and provide a description of this option.

Action 25.3: IESO to redraft the AMPCO option to provide payment for actual ramp provided rather than ramp scheduled in the unconstrained algorithm.

c) Evaluation of Options Against Criteria

There was not enough time for the presentation on the evaluation of the options to be delivered, however, the discussion throughout the meeting did touch on this topic.

Action 25.4: IESO to revise the evaluation table based on the discussion today. This revision will incorporate the additional option (ramp ancillary) and the changes to the AMPCO option, as well as the changes to the criteria.

Item #5: Intertie Transactions Setting Real-Time Price

The working group members agreed that this topic will be deferred until discussions on the 12 times ramp rate issue are completed, which is expected to be May.

Item #5: Next Meeting

Additional meeting: Friday, March 24, 2006 at Skymark

Several members felt that another meeting on the 12 times ramp rate issue was needed and should be scheduled before the next scheduled meeting in April, although there was not unanimous support for this. The IESO agreed that there was sufficient urgency to warrant another meeting.

This meeting is scheduled for the third Friday in March, as per our agreement at our January 20th meeting: “The Working Group members agreed to hold the third Friday of every month for such additional meetings.”

Due to a conflict with an IESO Board meeting on April 7, the location of the MPWG meeting planned for that day will be at a downtown Toronto hotel near the IESO offices.

Next regular meeting: Friday, April 7, 2006.
Rossetti Room
Delta Chelsea Hotel
33 Gerrard St. West
Toronto

MPWG – Stakeholder Feedback on the 12 Times Ramp Rate Issue

Decision Criteria

- Allocative efficiency is achieved if marginal consumption (and production) are in terms of actual marginal costs
 - The right prices must be seen at the margin to achieve allocative efficiency
- We are not achieving efficiency with the current market design. The current market behaviours should be considered when we discuss allocative efficiency in a modified market design.
- Paying what the product is “truly” valued at is in future market and is not a characteristic of the current market
- The efficiency criteria were not applied when we adopted 12X ramp rate so they may not be applicable in this discussion
- Who the correct parties are is critical in the discussion. The right parties are the generators and/or loads that can respond in the correct time frame. They should be compensated for that ability.
- Each party’s view of market efficiency is substantially different. Each sector has different perspectives, and this leads to differing opinions of what efficiency means. We must look at the impacts to each sector individually as they will be unique to that sector.

- The rebates and gov't's will come and go. In the current market the signals are muted by these factors. We have an opportunity now to get the market design correct
- Capacity investment would include conservation capacity investment
- It would be inappropriate to use this ramp issue to address capacity investment issues in the current market.
- The encouragement of ramp capability is highly relevant
- The investments in other markets (which pay uniformly; i.e. no ramp price) near us have seen significant investment in ramp capable units. Their uniform price markets have demonstrated that the uniform marginal price can produce the correct incentives
 - The investment in these units may not be strictly related to the unit's capability to ramp and the uniform prices (e.g. natural gas generators have been increasing in last 10 years. This may have happened regardless of the market price signals)
- If you need something done in your market place, make an incentive available for that need.

Fairness

- If we can estimate the cash flow impact then what does the "judge" do with that information.
- The fairness of the magnitude and direction of transfers depends upon who is receiving/distributing transfers
- Fairness is only paying resources that provide the service
- Fairness is not really about the outcome. It's about equal, non-discriminatory treatment
 - If it is efficient it may lead to fairness
 - Efficiency may be mitigated by fairness (LMP example...LMP not adopted because it would be unfair)
- Fairness should be classified as non-discriminatory and equitable treatment

Reliability

- Add the word 'non-dispatchable' (or non-participants) to the second bullet on the first slide
- Price should reflect reliability and price should reflect allocative efficiency
- How you modify the price to deal with ramp is not going to lead to incentives to long term capacity
- We need units in Ontario with ramp capability for reliability (generators or loads) and the correct signals to induce that ramp capability

Transparency

- Produce prices which reflect system conditions in a predictable manner (blend the top two points)
- Explain what Robustness of the solution to 12X RR means (e.g. a solution that enables the productive evolution the market)

Ramp Pricing Options

- There is another option (ancillary service) that is not captured in the 4 options. It has not been developed enough to be included in the evaluation of the other criteria's.
- the 4th bullet is an adjustment to the market pricing mechanism, the other option available is an ancillary service (which could be market or contract based)
- when we talk about MIO we would like to not preclude 'first pass pricing'
- When we discuss the options, can we discuss arbitrary nature of them? All the options have an inherent arbitrary nature
- More details on how to treat minimum generation blocks when units are online due to transmission constraints

Discussion at the End of the Day

- Danger in designing something that is going to take value out of the market price thereby diminishing the 'value' of the market price as a driver to efficiency
- If you can import/export (or trade in general) ancillaries they should be provided for in the market price
- If there is an ancillary service for ramp then measures would have to be taken to ensure it is not paid for in the energy price as well (double paying)
- How much ramp do we need? Do you pay for the performance of ramping, or do you pay for the ability to ramp?
- We are not paying for ramping capability, the ramping resources are being held harmless (paid cost as per offers)
- Do you value people who can ramp at different rates differently?
- If the market price increases (through 1X RR for example) by some percentage that increase will be mitigated by market mechanisms (i.e. imports/exports)

- Internal participants may respond and provide additional mitigation to a potential price increase
- An expanded AGC service can be used to compensate for ramp
- The total payments using a ramp service need to be compared in context with the total value of the market
- Would the ramp service pay for ramp down as well as ramp up? AGC pay's for both directions
- The market can decide which is the most efficient unit to go up, but it may not be the most efficient to go down. There may be another unit that can ramp down more efficiently.
- A dispatchable load can provide ramp the same as a generator. If a load is dispatched down at 9am for morning pick up, it should be paid for ramping
- Does the market value flexibility?
 - And if it does, does it value the flexibility as a distinct product from energy?
- More information about implementation costs with each of the solutions. And, impacts of implementing a solution on other IESO endeavours (e.g. DAM)