



APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

APPrO Position on 12x Ramp Rate

Presentation to the IESO open
stakeholder session on price
calculation methods

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Background

- High price volatility observed during pre-market opening tests threatened market opening
 - To allow market opening, generators agreed to a temporary measure to make ramp rates appear twelve times greater than physical reality
 - This tends to eliminate the price volatility needed to make the market work properly
 - This solution was approved by the IESO Board until a more efficient long-term solution would be found
- è Since that time, there has been much talk of change but none has been made*

Background

- Since 2003, the Market Surveillance Panel has repeatedly commented on use of 12x RR multiplier
- In 2004 APPrO noted real-time pricing and dispatch issues must be effectively addressed either prior to or coincident with the development of a DAM
- In 2005 during the development of the IESO's DACP generators noted that reliability would be improved by addressing outstanding pricing issues
- Generators said they would support DACP at the first IESO SAC only if the IESO addressed pricing issues

Background

- Dec. 7 IESO Board resolution regarding Day Ahead Commitment Process included the following:

“...the Board recognizes the need to give focused attention to resuming and advancing work with stakeholders on the Day-Ahead Market, the appropriate ramp rate multiplier, if any, to be employed in the market schedule...to the extent feasible without jeopardizing the June 1 DACP in-service date, this work should proceed in parallel with the implementation of the DACP.”

The problem with 12x

- **Arbitrary**
 - the 12x was an arbitrary value with no relation to anything other than the desire to reduce feared volatility
- **Inefficient**
 - ramping is a valuable service, and the current solution does not reward it at all
- **Overuse**
 - because the current solution does not impose any costs for ramping on the IESO dispatch decisions, while ramping does impose maintenance and emissions costs on generators, the IESO dispatch tool overuses it

APPRO's Position on 12x

- The 'correct' solution to the 12x RR multiplier is to revert to the original 1x design
- It is consistent with the principle of market design that price should be based on the system marginal cost
 - It signals consumers properly with the cost that they are imposing on the system
 - It signals producers properly with the value of their contribution to the system
- It is consistent with the design of all neighbouring markets
- It is consistent with the government policy ("ratepayers pay the true cost of the electricity they consume")

APPRO's Position on 12x

- Some expressed concern that increases in volatility and prices would result from reversion to 1x
 - However, APPRO believes that much of this would be mitigated by the amount of generation with prices that are set by contract or regulation, not in the market
- Stakeholders recognize the need for some change to the 12x ramp rate
 - APPRO's position is that 12x be replaced by 1x ramp rate
 - AMPCO suggested changing the basis of the payment to the constrained-on generators so that all receive the bid price of the last ramping generator to be dispatched
 - The IESO proposed extending its Multi Interval Optimization (MIO) approach from scheduling to pricing

APPRO Position

- APPRO's position is that there are only two real options to resolve the issue
 - Change the ramp rate multiplier back to 1x myopic, or
 - Additional compensation for ramping units through supplemental ramping payment which would compensate every generator and dispatchable load that provided ramp to the IESO

Summing Up

- IESO through Market Pricing Working Group has been addressing issue
 - IESO recommendations recognize the need to resolve issue but to also move forward with other initiatives to ensure price more closely aligned with dispatch
 - IESO rejects 1x myopic solution; general recognition that 1x MIO is problematic from many perspectives
 - Doing nothing will ultimately affect reliability
- è APPrO is prepared to work with the IESO to develop a ramping supplement as a temporary measure to ensure development of other necessary market evolution initiatives*

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