

Notes from the 35th Meeting of the Market Pricing Working Group

Wednesday December 6, 2006 8:30 a.m. – 1:00 p.m.

Toronto Congress Centre

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	IVACO	Briggs, Jeannette	IESO
Bell, Brian	Ontario Power Generation	Chase, Maia	IESO
Bellissimo, Vittoria	Ontario Power Authority	Devereaux, Dave	IESO
Benner, Ryan	Dofasco	Dieterle, Chris	IESO
Bellavance, Eric	Hydro-Quebec Production	Finkbeiner, Darren	IESO
Cary, Rob	Sithe Power	Freire, Joseph	IESO
Cipolla, Jim	Northland Power	Kozlik, Ken	IESO
Dade, Christine	Direct Energy	Loughren, Chris	IESO
Dottori, Paul	Tembec	MacKenzie, John	IESO
Dumais, Dan	Xstrata Nickel	Rivard, Brian	IESO
Duzy, Margaret	TransCanada Energy	Wilbur, Bill	IESO
Hunt, Robert	Optimal Technologies		
Hunter, Kelly	Manitoba Hydro		
Kerr, Paul	Coral Energy		
Kuriychuk, Mike	Pathchoice Energy Consulting		
Leung, Linda	Ontario Power Generation		
Lung, Gene	Direct Energy		
Mancherjee, Kevin	Ontario Power Authority		
Passi, Mark	Xstrata Nickel		
Rothman, Mitch	Navigant Consulting (on behalf of TransAlta)		
Toma, Tony	Wescast		
Yang, Bun Li	E4		

Item #1: Administration

Ken Kozlik (IESO) requested the following changes to the agenda.

- Add a report on the NPCC Task Force on Coordination of Operation to agenda item 1.
- Switch the Global Adjustment and OPG Rebate item (agenda item 3) and the Market Efficiencies item (agenda item 2).

a. Review Notes from November 3rd, 2006 Meeting

- No comments
- IESO to post notes as final

b. Proposed Meeting Schedule for 2007 (Action item 34-1)

John MacKenzie (IESO) presented a revised proposed schedule of MPWG meetings for 2007. Refer to published proposed schedule.

Member Questions, Comments and Discussion

- Members identified conflicts for the following proposed meeting dates:
 - (i) May 10th
 - (ii) October 31st
 - (iii) December 6th
- The Group agreed to reschedule the May 10th and October 31st meetings to May 9th and October 29th respectively. There will be no date change for the December 6th meeting.

IESO to issue final 2007 Working Group meeting schedule (refer to action item 35-1).

c. Update on Ramp Rate Multiplier Issue and Locational Marginal Pricing Study

Ken Kozlik (IESO) provided the following updates:

- **Ramp Rate Multiplier Issue**
 - (i) The IESO recommendation was discussed at the November 17th meeting of the IESO Board. The Board has not made a decision and there is no timetable on when the Board will make a decision.
 - (ii) The IESO Board is aware of the stakeholder concerns and issues regarding this decision.
- **Locational Marginal Pricing (LMP) Study**
 - (i) IESO presented the three options at the November 17th meeting of the IESO Board. The IESO Board favoured option 3: proceed at measured pace with LMP study and examine improvements to Day-Ahead Commitment Process (DACP).
 - (ii) IESO is also examining means to improve the nodal price data e.g. non-static transmission loss factors.

- (iii) The IESO intends to continue LMP investigation and discussions with the MPWG.

Member Questions, Comments and Discussion

- The IESO should develop and issue a stakeholder engagement plan for the work being undertaken such as non-static transmission loss factors.
IESO response: A stakeholder plan will be published in early 2007. The IESO expects that the MPWG and/or possibly the Dispatch Issues Working Group will be the stakeholder forums for this work.
- Concern expressed that introducing non-static loss factors would then require 12 to 18 months of operation to get a comprehensive set of actual nodal prices for analysis.
- The IESO should develop, in-house or through purchased service, the capability to do forward production and price simulations. It is recognized that developing and maintaining such in-house capability would require a large effort.

d. Day-Ahead Market Stakeholder Plan

Ken Kozlik (IESO) provided the following update:

- The IESO now believes that having discussions on an individual stakeholder or sector basis would be more productive than having discussions with a single group of all stakeholders. The IESO is preparing a set of questions for these stakeholder discussions. These questions will ask stakeholders to identify what business objectives could be met through a day-ahead market.
- The IESO expects to revise and re-issue the day-ahead market stakeholder plan (SE-21) accordingly, before the end of 2006.

Member Questions, Comments and Discussion

- The IESO should provide a common definition of a day-ahead market so that stakeholders can respond to the questions appropriately.
- How would the introduction of a day-ahead market affect OPA contracts? Other members noted that OPA contracts have “complete re-opener” provisions structured to address if the introduction of a day-ahead market is introduced and that the general form of OPA contracts is available on the OPA web-site.
- Stakeholders will need time to consider and respond to the IESO questions.
- The intertie trader community would be very interested in participating in these discussions.

e. Report from NPCC Task Force on Coordination of Operation

Darren Finkbeiner (IESO) provided the following report:

- Regional Reserve Sharing: NPCC will soon permit the ISOs in the northeast to count 100 MW of regional reserve as contributing to meeting the operating reserve requirement. ISOs are currently allowed to count 50 MW.
- Loads Providing Synchronized Operating Reserve: NPCC will soon permit loads to provide 10 minute synchronized operating reserve.
- Area Control Error (ACE) diversity: NPCC will soon permit ISOs to “share” ACE so that if one ISO is under-generated and its neighbour is over-generated, together they would still meet the reliability standards. This diversity is expected to improve efficiency of AGC and dispatch of domestic generators.
- NPCC documentation and processes are expected to be completed in the spring of 2007. The timing of IESO subsequent implementation of these changes is not known.

Member Questions, Comments and Discussion

- There are too many “small” stakeholder forums. These NPCC changes, which have far-reaching impacts, should be reviewed at a more comprehensive forum such as the disbanded Market Operations Standing Committee.
- Is NPCC considering the ability of market participants to import or export operating reserve? A member asked that this issue be put on a future MPWG meeting agenda.
IESO answer: Not aware of any NPCC discussions. The IESO suggested that the member raise this issue at the upcoming meeting of the Intertie Traders Subcommittee.

Item #2: Global Adjustment and OPG Rebate

- Joseph Freire (IESO) gave a presentation on the formulation of the Global Adjustment and OPG Rebate (refer to published presentation):
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-GlobalAdj-OPG-Rebates-Pres.pdf
- Mitch Rothman (Navigant) gave a presentation on forecasting of the Global Adjustment for the purposes of the Regulated Price Plan (refer to published presentation)
NTD: need to publish presentation
- Dave Devereaux (IESO) gave a presentation on (i) the impacts of the Global Adjustment and OPG Rebate on real-time prices and (ii) how time shifting of consumption can reduce participant costs (refer to published presentation)
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-Global-Adjustment-and-Rebates-Impact.pdf
- Ken Kozlik (IESO) requested feedback from members on the usefulness of the information provided and whether there was a need for updates or refreshers on these issues. Members from the consumer community were asked to spread the word to

other consumers that consumption time shifting and responding to real-time price could result in benefits to them.

Member Questions, Comments and Discussion

- a. Are there any accounting delays that result in inaccuracies of the value of the Global Adjustment and OPG Rebates for a given month?
IESO answer: there are minimal delays and inaccuracies. Estimates of generator production are used only for the last few days of a month when determining the Global Adjustment and OPG Rebates. Verified generator production is used for all other days in the month.
- b. Does the IESO provide an estimate of the OPG Rebate?
IESO answer: yes, estimates are published at the following location on the IESO web site:
http://www.ieso.ca/imoweb/b100/b100_ONPA.asp
- c. Where would the OPG costs for and energy resulting from the Beck tunnel and future nuclear refurbishment be included?
IESO answer: these issues are under OEB consideration.
- d. Where would payments to Bruce Power for not operating due to transmission limits be included?
IESO answer: to the extent such costs are covered in a contract between OPA and Bruce Power, they would be included in the Global Adjustment calculation.
- e. Do the amounts that OPG contributes to the Global Adjustment or OPG Rebate affect payments on the stranded debt?
IESO answer: no.

Next steps:

- None identified.

Item #3: Market Efficiencies (Action item 33-1)

- Brian Rivard (IESO) gave a presentation on definitions and examples of market efficiencies (refer to published paper and presentation):
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Paper-Economic-Concepts-of-Efficiency.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Economic-Efficiencies.pdf

Member Questions, Comments and Discussion

- a. Value of consumption should not be a consideration. The primary goal of the market should be to maximize productive efficiency, not allocative efficiency.

- b. Allocative efficiency should be the prime consideration as it considers impacts on the whole industry and economy. Improving allocative efficiency over time is necessary to achieve a sustainable industry.
- c. The examples provided are too simple and are misleading. More in-depth examples and discussion are needed.

IESO response: more in-depth discussion of the efficiency concepts is needed in order to achieve a common understanding of (i) the different types of efficiencies, (ii) how to quantify each efficiency, and (iii) the implications of not improving each type of efficiency. The IESO believes that such an understanding is necessary for the Working Group to make progress on the issues before the Working Group.

Next steps:

- A further discussion of market efficiencies will be held at the MPWG January 25th, 2007 meeting.

**Item #4: Locational Pricing and Settlements for Local Emergencies
(Action items 34-2 and 34-3)**

- Darren Finkbeiner (IESO) provided the following update in regards to improving IESO communication to market participants during emergencies (AI 34-2):
 - i) The IESO will have the IT capability for “active messaging” this month. This active messaging system will be able to send e-mail messages to market participants upon “trigger events”, such as issuing a new System Status Report (SSR) or the IESO taking an emergency control action.
 - ii) The IESO still needs to develop the internal manual and automated processes for the triggering events and resulting messages. The IESO expects to have manual processes developed in early 2007, and automated processes in the spring of 2007.

Member Questions, Comments and Discussion

- i) Rather than introduce “new” communication systems and processes, the IESO should improve the existing systems and processes e.g. issuing more timely and informative SSRs. These types of improvements have been repeatedly requested but there does not appear to be any IESO action.
IESO response: members were invited to discuss such improvements with IESO staff outside of the MPWG.
- Chris Loughren (IESO) presented the results of the investigation into using locational pricing signals for local emergencies (AI 34-3) (refer to published paper and presentation)

http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Paper-Locational-Pricing-Emergencies.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-Locational-Pricing-in-Emergencies-presentation.pdf

Member Questions, Comments and Discussion

- i) There was general agreement that no further work be done on this aspect of the issue of emergency pricing, pending completion of the locational marginal pricing analysis. However the use of such locational pricing for settlements should be revisited at that time.
- ii) A member suggested that market participants in an area affected by a local emergency should not pay the full cost of addressing the emergency as the reason(s) for the emergency may be decisions made or actions taken by other entities other than the market participant. Another member countered that the cost of local emergencies should not be socialized.
- iii) Future work of the MPWG on this and other issues should be prioritized on some basis such as total potential dollar impact.

Item #5: Use of Pre-Dispatch Peak vs Average Demand Forecast (Action 34-5)

- Ken Kozlik (IESO) provided a summary of the gross inefficiencies analysis (refer to published presentation)
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Peak-vs-Avg-Gross-Inefficiencies-presentation.pdf

Member Questions, Comments and Discussion

- i) The hour-to-hour inefficiencies need to be assessed as that is the systemic issue. Market participants need to be able to trust the pre-dispatch price signal and take appropriate action. The use of peak demand forecast results in a price bias.
- ii) We need to be able to quantify efficiency improvements and expected changes in behaviours for market changes.
- iii) Suppliers have accepted market efficiency improvements that have an adverse economic impact on them (e.g. regional reserve sharing). Consumers appear to be unwilling to do the same.

Action Items

- AI 33-1: IESO to include a review of the definition of allocative and dynamic efficiencies on agenda of future MPWG meeting – preferably the November 3rd 2006 meeting.

Status: refer to agenda item 3. Further discussion at future MPWG meetings. Action item to remain open.

- AI 33-2: IESO to advise MPWG why intertie nodal shadow prices are not included in the shadow price analysis.

Status: open

- AI 34-1: IESO to revise and re-issue Working Group 2007 meeting schedule such that meetings are scheduled (i) on a day other than Fridays and (ii) on the day before or after meetings of the Stakeholder Advisory Committee.

Status: Closed: refer to agenda item 1b.

- AI 34-2: IESO to explore means to improve IESO real-time communication with market participants during emergencies.

Status: Closed: refer to agenda item 4.

- AI 34-3: IESO to continue investigating use of locational pricing signals during local emergencies and implications of using such prices for settlement purposes.

Status: Closed: refer to agenda item 4.

- AI 34-4: IESO to develop criteria for determining which hours in which it would be acceptable to use an average demand forecast. The IESO will bring those criteria to the Working Group for review.

Status: open

- AI 34-5: IESO to report back at December MPWG meeting on peak vs average efficiencies and price impact analysis.

Status: open. Only “gross inefficiencies” analysis presented and discussed at December 2006 meeting.

- AI 35-1: IESO to issue final 2007 schedule of MPWG meetings.

Status: open