
RECOMMENDATION FOR ISSUE 28

ADDITIONAL COMPENSATION UNDER ADMINISTRATIVE PRICING

Document #28-2

The IESO Market Pricing Working Group (MPWG) is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

Advice and recommendations of the Market Pricing Working Group as well as other materials developed in the course of the working group's deliberations are used as inputs into the IESO's broader stakeholding process and to inform IESO decisions, including decisions of the IESO Board of Directors and IESO Technical Panel.

The following recommendations are made in principle. The working group recognizes that if this recommendation is adopted by the IESO, further consultation and consideration with respect to implementation details and feasibility would be required.

Sectors represented in the polling of this recommendation:

<input checked="" type="checkbox"/> - <u>Dispatchable Load</u>	<input checked="" type="checkbox"/> - <u>Non-dispatchable Load</u>	<input checked="" type="checkbox"/> - <u>Generator</u>
<input checked="" type="checkbox"/> - <u>Wholesaler/Retailer</u>	<input checked="" type="checkbox"/> - <u>Distributor</u>	<input checked="" type="checkbox"/> - <u>Transmission</u>
<input type="checkbox"/> - <u>Residential</u>		

A. Background

Eligibility of dispatchable loads for additional compensation under administrative pricing (e.g. where administered prices extend beyond 48 intervals) is currently restricted to situations where a dispatchable load receives and follows IESO dispatch instructions which require running (load displacing) generation equipment connected to the dispatchable load facility. In this case, the dispatchable load may be eligible – subject to applicable materiality

limits - for additional compensation in relation to the fuel or other variable costs for that generation.

IESO stakeholders have expressed interest in revisiting this restriction. For instance, the issue of additional compensation for loads has been recorded in the IESO Participant Issues Log (as issue #924 – January 21, 2004) and has been discussed in the IESO Market Pricing Working Group (August, December 2004).

In February 2005, the IESO Market Pricing Working Group reviewed a discussion paper prepared by IESO staff (attached along with this document and available at: http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Feb2_Iss28DiscussOptPaper.pdf) which addressed the issue of additional compensation for loads under administrative pricing and outlined the following three key questions for the working group's consideration:

- i. What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?
- ii. Who should pay the costs of any additional compensation that may be provided to loads?
- iii. Should non-dispatchable ~~entities~~ loads be eligible for additional compensation?

To aid the Market Pricing Working Group in developing related recommendations, the discussion paper offered “strawman” options to each of these questions.

B. Options Considered

Options considered in view of the above questions are as follows, and are described in greater detail in the attached discussion paper:

- Question 1: “Dispatchable Loads Eligible”?
 - Option 1-1: Yes: where, as a result of following an IESO dispatch instruction to consume, the dispatchable load incurs a higher energy cost than it was willing to pay based on its bid price
 - Option 1-2: Only for load-displacement generation costs incurred (status quo)
- Question 2: “Who Pays”?
 - Option 2-1: Loads only
 - Option 2-2: Generators only
 - Option 2-3: Loads and Generators
- Question 3: “Non-Dispatchable Loads Eligible”?

- Option 3-1: Non-dispatchable loads not eligible
- Option 3-2: Yes, under circumstances analogous to those described in Option 1-1

C. Recommendations of the Market Pricing Working Group

~~The following recommendations are made in principle, and are subject to The working group recognizes that, if this recommendation is adopted by the IESO, further consultation and consideration with respect to implementation details and feasibility would be required.~~

1. What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?

The working group recommends that dispatchable loads should be eligible for additional compensation under administrative pricing in a manner analogous to that currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads should be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but should not be compensated for foregone opportunities. In circumstances where the market has been suspended and where, consequently, no bid is available to determine the eligible additional compensation amount, a historical bid benchmark should be used in proxy. This recommendation corresponds to option 1-1 outlined on page 6 of the attached discussion paper.

- **Impacts of Recommendation:**

- **Participant Impact:** Would entitle dispatchable loads that responded to IESO dispatch instructions to additional compensation, where appropriate, under administrative pricing.
- **Market Impact:** Would effect greater symmetry in the treatment of dispatchable generators and dispatchable loads with respect to additional compensation thereby supporting the principle of fairness in the market.
- **IESO Impact:** ~~Would require changes/amendments to the IESO Market Rules. Might require IT tools changes.~~ Would require the development of ongoing administrative, monitoring, and audit processes. Changes to IESO software and other IT tools may also be required.
- **Other Impacts:** It is assumed that all dispatchable load market participants would comply with IESO dispatch instructions. As such, No expected impact on reliability or quality of service is expected. Paying additional compensation to dispatchable loads would result in additional uplift payments.

• **Dissenting and Abstaining Views of the Market Pricing Working Group Views:**

	<u>Sector Member</u>	<u>Reason:</u>
<u>Against:</u>		
<u>Abstain:</u>		

2. Who should pay the costs of any additional compensation that may be provided to loads?

The working group recommends that additional compensation paid to dispatchable loads should be recovered from all ~~other~~ loads. This ~~would~~ may be accomplished in a manner similar to that currently used to recover the costs of additional compensation paid to dispatchable generators in the IESO-administered market. This recommendation corresponds to option 2-1 outlined on page 8 of the attached discussion paper.

~~While the rationale proposed in recommended option 2-1 is generally accepted by the Market Pricing Working Group, the rationale proposed for option 2-3 (“both loads and generators pay”) is also acknowledged to possess merit. However, the working group is generally of the view that option 2-3 should not be recommended at this time as it would introduce an undesirable degree of additional complexity onto market participants, and that it would be better suited for consideration within a broader discussion of market cost allocation.~~

Any work done by the IESO in this matter should be done prudently and within the existing IESO budget.

- **Impacts of Recommendation:**
 - **Participant Impact:** Would result in additional uplift payments.
 - **Market Impact:** Would continue existing practice of allocating costs of additional compensation payments to loads.
 - **IESO Impact:** Would require amendments to the IESO Market Rules. ~~Might~~ may require changes to settlement tools. ~~might~~ May also require change to settlement processes.
 - **Other Impacts:** No expected impact on reliability or quality of service.

• **Dissenting and Abstaining Views of the Market Pricing Working Group:**

	<u>Sector Member</u>	<u>Reason:</u>
<u>Against:</u>		
<u>Abstain:</u>		

3. Should non-dispatchable ~~entities~~ loads be eligible for additional compensation?

The working group recommends that only dispatchable ~~entities~~ loads ~~should~~ be eligible for additional compensation under administrative pricing. ~~This would be comparable treatment to that of non-dispatchable generators under the IESO Market Rules.~~ The rationale for this recommendation is outlined in option 3-1 on pages 8 and 9 of the attached discussion paper.

~~In addition to this recommendation, several working group members suggest that it would be beneficial to investigate mechanisms that would enhance opportunities for demand response for non dispatchable loads in the IESO administered markets. In view of promoting broad based participation in electricity markets, this is generally considered to be a reasonable and helpful suggestion.~~

- **Impacts of Recommendation:**
 - **Participant Impact:** **No expected impact.** Non-dispatchable entities continue to be ineligible for additional compensation under administrative pricing.
 - **Market Impact:** No expected impact as no changes proposed.
 - **IESO Impact:** No expected impact as no changes proposed.
 - **Other Impacts:** No expected impact on reliability or quality of service.

- **Dissenting and Abstaining Views of the Market Pricing Working Group:**

	<u>Sector Member</u>	<u>Reason:</u>
<u>Against:</u>		
<u>Abstain:</u>		