

Notes from the 24th Meeting of the Market Pricing Working Group

Friday January 20, 2006, 8:30 – 2:30

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	Wu, Lawrence	Total Energy Advice & Management
Alpajaro, Peter	Bruce Power	Yang, Bunli	E4 Inc.
Bell, Brian	Ontario Power Generation		
Benner, Ryan	Dofasco		
Blechta, George	Falconbridge	Dieterle, Chris	IESO
Brown, David	Ontario Energy Board	Finkbeiner, Darren	IESO
Cary, Rob	Cardinal Power	Katsuras, George	IESO
Coulbeck, Rob	Ontario Power Generation	Kozlik, Ken	IESO
Duzy, Margaret	TransCanada Energy	Loughren, Chris	IESO
Gregg, Laurie	Falconbridge	MacKenzie, John	IESO
Kerr, Paul	Coral Energy Canada	Maria, Gamal	IESO
Snelson, Ken	AMPCO	Penn, Richard	IESO
Whyte, Dan	Brascan Power	Wilbur, Bill	IESO

Item #1: Review of Action Items from September 9th Meeting

- Action 23.1: IESO to email TP material regarding emergency communications to members. **Closed.** Material distributed to the Working Group in the week of January 16, 2006.
- Action 23.2: IESO staff to investigate publishing details whenever market schedule demand is adjusted for emergency control actions. **Closed.** The “real-time” publishing of this information is dependent on the IESO active messaging, which is scheduled to be in-service in the second quarter of 2006.
- Action 23.3: IESO to email and post revised recommendation paper (Enduring Solution to Emergency Control Action and Counter-Intuitive Pricing). **Closed.** This has been posted on the MPWG web page with the September 9, 2005 meeting materials. The IESO views the implemented solution as an enduring solution as the implemented solution results in the offsetting of all applicable emergency control actions.
- Action 23.4: IESO staff to review and update the existing MPWG paper on this topic (Issue #7 – Intertie Setting Prices). **Open.** The IESO will distribute an updated paper for the next Working Group meeting.
- Action 23.5: IESO staff to review and update the existing MPWG papers on this topic (Issues 4, 25 and 31 – Temporal Optimization). **Open.**

Item #2: Work Plan and Future Meetings

The Working Group reviewed the work plans for developing recommendations on the Ramp Rate Multiplier and Intertie Setting Real-Time Prices.

Dates for the Working Group meetings were scheduled to be on the first Friday of every month of 2006 starting in March.

IESO staff proposed that additional Working Group meetings be held if necessary in order to meet the target date of bringing a recommendation on the Ramp Rate Multiplier to the IESO Board meeting in June 2006 rather than defer the recommendation. The Working Group members agreed to hold the third Friday of every month for such additional meetings. A Working Group member also suggested that in order to meet the June deadline, it may be prudent to have the next Working Group meeting before the beginning of March.

Item #3: Control Action Operating Reserve (CAOR)

IESO staff made a presentation detailing:

- the changes made to the CAOR offers to address inappropriate scheduling discovered during the implementation of the second 400 MW of CAOR; and
- a potential reliability issue related to scheduling of large amounts of CAOR in the pre-dispatch sequences during the spring freshet and options to address that issue.

Some members stated that increasing the CAOR offer price to address the potential reliability issue was the most appropriate option for the following reasons:

- it would result in the economic and market-based scheduling of alternatives to CAOR in the pre-dispatch;
- other options such as reducing the amount of CAOR in pre-dispatch only or manually constraining on resources either would increase further the differences between the pre-dispatch and real-time sequences or interfere with market-based scheduling and prices.

IESO operations staff advised the group that, as a result of recent analysis conducted, the potential reliability issues noted above were manageable as sufficient recallable exports were available to cover the entire scheduled CAOR over 90% of the time that CAOR has been scheduled during the spring freshet season.

Some members expressed concern that scheduled export transactions would be exposed to greater risk of recall during spring freshet as a result of the CAOR scheduling. The IESO acknowledged that this was the case, but noted that the exports would not be scheduled at all if not for the CAOR.

Item #4: Temporal Optimization

Some members asked why this issue was now such a high priority, with a deadline of presenting a recommendation to the IESO Board in June 2006. The IESO stated that the IESO Board had, as part of its approval of the Day-Ahead Commitment Process and in response to stakeholder concerns, directed IESO staff to make resolution of this issue a top priority. The IESO acknowledged that the impact of any recommendation on market costs (e.g. energy prices, uplifts) must be communicated to the Stakeholder Advisory Committee and the IESO Board. The IESO encouraged Working Group members to actively assess and articulate the impact of any options considered.

IESO staff requested member feedback on the Stakeholder Engagement Plan (SE-17) by January 24, 2006. Members suggested that the IESO use existing stakeholder forums, such as the Toronto Board of Trade and BOMA in order to engage all electricity users and suppliers on this issue.

IESO staff made a presentation that recapped the 12x ramp rate issue and proposed next steps (presentation slides posted on the website). During the presentation and discussion, the following comments were made.

1. The following “parking lot issues” were raised that will require resolution:
 - a. Should market prices be calculated on the same basis as physical dispatch to the extent possible given that Ontario has uniform prices? Or should physical dispatch follow price? Should the market schedule respect generation facility minimum loading points?
 - b. What was the original expectation with respect to the constrained schedule treatment of generation unit minimum loading points?
 - c. How do other markets compensate for ramping service?All of these parking lot questions must be addressed in determining the recommendation to the IESO Board.
2. Use of a market schedule based on a fictitious unconstrained transmission grid is in itself, an arbitrary determination of price. Hence, the inability to rationalize a “6x” or “3x” ramp rate may be acceptable if the resultant prices provide the right signals.
3. Need to consider long, mid and short-term implications of any change. Prices and market revenues need to drive supply investment as well as short-term behaviours.
4. Acceptance that generation facilities that provide fast ramping service to the market are providing a valuable service and should be appropriately compensated. Some members objected to energy prices being set by a fast ramping facility because that energy price is then paid to facilities that are not providing that ramping service.
5. Development of a load following ancillary service was viewed by some members as a possible long-term solution, maintaining a 12x ramp rate until such a service could be developed and implemented was not acceptable by those members. This group of members suggested the Group needs to look at short-term options that pay for ramping service without providing windfall profits to those facilities not providing that service.
6. Members asked the IESO what criteria it would be using to develop a recommendation.

The following next steps were identified:

- Load members would develop short-term option(s) that pay for ramping service without providing windfall profits to those facilities not providing that service.

- The IESO should (i) investigate other markets to determine how they compensate for ramping service and (ii) determine what would be the costs and timelines for developing and implementing such a service in the Ontario market.
- Members suggested that the IESO should map out and evaluate options on the basis of:
 - a. impact on total market costs,
 - b. reliability;
 - c. resulting market participant behaviours;
 - d. measures needed to mitigate impact on loads of any price/cost increases;
 - e. recent changes to the market e.g. DACP, increased CAOR, regional reserve sharing.
- The IESO undertook to do the following:
 - a. Within three weeks provide to the Working Group (i) decision criteria (ii) several possible alternatives and (iii) how those alternatives reflect today's discussions.
 - b. Conduct quantitative and qualitative analyses on the above alternatives and provide the results of those analyses to the Working Group before the next meeting.
 - c. Confirm the IESO Board mandate to determine if any changes beyond changing the ramp rate multiplier are within scope. The IESO shall advise the Working Group by January 27 of the scope of the options to be considered.
- The IESO requested that members provide any input on alternatives that the IESO should consider by February 7.

Item #5: Next Meeting

Friday March 3, 2005 at Skymark, beginning at 08:30. An earlier meeting will not be held, given the work required prior to the next meeting. However, members will be provided with additional materials as soon as available, prior to the next meeting.