

Memorandum

To: Market Pricing Working Group
From: John MacKenzie, Market Evolution
Date: February 25, 2008
Re: Market Pricing Working Group Action Items 47-1 and 47-3

AI 47-1

IESO to confirm its position on the potential development of an adequacy market mechanism as a future market development initiative.

IESO Response:

The following is an extract from the IESO 2008-2010 Business Plan which articulates the IESO's position that an adequacy market mechanism be considered as a future market development initiative. The IESO continues to stand by this position.

"Market evolution initiatives that could follow the DAM would fall under two broad categories. The first category relates to improvements in real-time operation and market signals; the second focuses on market drivers going forward in time - the longer-term reliability-based market mechanisms that might be used to address resource adequacy. Whether the focus will be on moving "in" from day-ahead to real time, or moving "out" from day-ahead to how the market prepares for the future will depend on many factors. They include experience gained throughout DAM development, OPA and industry progress on the development of load serving entities (LSE), results from the Ontario Energy Board (OEB) review of the IPSP, recommendations and findings of the Market Surveillance Panel, and most importantly, stakeholders' expressions of how the market can be made to better meet their business needs.

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Moving "out" from day-ahead to preparing for the future: a DAM provides a platform to facilitate further evolution of Ontario's electricity market. Most consider DAM as a key enabler of LSEs, which are currently being investigated by the OPA. If LSE development progresses, an important step may have been taken towards creating a self-sustaining market-based industry. In other jurisdictions with LSEs, the responsibility for sufficient forward resource adequacy is apportioned out from a central authority such as the OPA, to the LSEs and those market participants who are willing and able to manage their own electricity procurement. How such forward responsibilities are allocated, whether ancillary market mechanisms such as capacity

markets or option contracts are needed to augment whatever bilateral contracts participants have arranged, and how the IESO would be confident that forward commitments were adequately addressed, would be key questions for these market evolution initiatives.”

The complete IESO Business Plan is published on the IESO web site at the following location:
[http://www.ieso.ca/imoweb/pubs/corp2/IESO Business Plan 2008-2010.pdf](http://www.ieso.ca/imoweb/pubs/corp2/IESO_Business_Plan_2008-2010.pdf)

Recommendation: AI 47-1 be closed.

AI 47-3:

IESO to provide MPWG with the specific corporate performance measure related to administrative pricing.

IESO Response:

The IESO 2008 performance measure for administrative pricing is below:

Category/Name*	Measure	Criteria	Performance Target
Market Operation			
Administrative Pricing (AP)	Frequency	Number of occurrences of AP per year	≤75
	Duration	Number of intervals AP applied per year	≤350

The rationale and description for these measures is below:

“18. Administrative Pricing Frequency, and

19. Administrative Pricing Duration

The use of administered prices can result in market participants being settled at prices other than those otherwise expected under normal market operation, and should be minimized. These two measures track both the number of instances of administrative pricing as a result of a tool failure, procedural error, or incorrect input, as defined in the market rules, and the number of dispatch intervals where administrative pricing was applied as a result of a tool failure, procedural error, or incorrect input, as defined in the market rules. Planned outages to the market tools are not counted as instances of administered pricing.”

Information on IESO 2008 performance measures can be found on the IESO web site at the following location:

<http://www.ieso.ca/imoweb/corp/opm2008-1.asp>

Recommendation: AI 47-3 be closed.

Yours truly,

John MacKenzie