

Memorandum

To: Market Pricing Working Group
From: Brian Rivard
Date: December 6, 2007
Re: Action Item 45-3: Definitions of Efficiencies and Price Attributes – Member Feedback

At the Market Pricing Working Group meeting on October 29th, 2007, MPWG members were asked to provide written comment on the proposed definitions. The IESO also took the following action item:

“AI 45-3: IESO to provide summary of MPWG member feedback on proposed definitions of efficiencies and price for discussion at the December 6th, 2007 MPWG meeting.”

The IESO received only one written comment, from a generator. The comments received are attached (Attachment A).

The IESO recommends that AI 45-3 be closed.

Yours truly,

Brian Rivard

Attach.

Attachment A

Comments from Generator on Efficiencies Definitions and Price Signals

RE: Request for Feedback - Efficiency Definitions and Price Signals As noted in the attached meeting notes (agenda item 1(c) Action item 33-1)

MPWG members were asked to provide feedback on the proposed definitions of efficiencies and price.

Here are a few comments on the last part of the paper on Economic Concepts of Efficiency and The Role of Price Signals in Achieving Efficiency.

1. The sections on Efficiency are helpful however the last section lacks sufficient detail to resolve questions that have been raised when determining the specific rules used in determining pricing logic. For example, under what conditions are resources considered to be eligible to set incremental cost? Why incremental and not decremental or the average of incremental and decremental? In the NY-ISO markets they allow Gas units which are not physically capable of incremental output to set price under certain circumstances. Apparently, the IESO market does not allow units which are ramp limited (up and down?) to set price. Does this enhance or harm efficiency?
2. The bullet list should include the point: reflects the current system conditions and adequately reflects scarcity conditions.
3. The third point "can be reasonably predicted" must not take undue priority over point 2 above. The nature of electricity, in that it can't be stored efficiently and typically has limited demand elasticity, which results in occasional unpredictable price spikes. This attribute should not be artificially suppressed.