

Memorandum

To: Market Pricing Working Group
 From: Brian Rivard, Market Evolution
 Date: January 30, 2008
 Re: Market Pricing Working Group (MPWG) 2008 Priorities and Performance Measures

Background

In late 2007, the IESO advised the MPWG that the IESO Board had approved performance measures for the Market Pricing Working Group (MPWG) for 2008. Refer to the table below for the approved performance measures and targets.

Performance Measure	Performance Target
<p>1.4 Market Pricing Working Group will address the following issues:</p> <ol style="list-style-type: none"> 1. use of peak versus average hourly demand forecast in the pre-dispatch sequence 2. sale of operating reserve to neighbouring markets 3. feasibility and potential impacts of locational pricing for inertie transactions <p>*Note: "Addressing" an issue does not necessarily mean a change to the current arrangements. For example, retaining the status quo is a possible outcome of the consideration of an issue.</p>	<p>At least:</p> <ul style="list-style-type: none"> • one issue addressed with strong stakeholder alignment; • one issue addressed with some stakeholder opposition; • ongoing active discussion of one issue; and • DAM recommendations reviewed by Market Pricing Working Group to determine if the role of inertie transactions in real-time price calculations remains an issue in light of those recommendations.

At that time, the IESO requested MPWG member feedback on the outstanding issues and the 2008 performance measures. Five MPWG members provided feedback in writing: four generators and one inertie trader. A sixth MPWG member, an inertie trader, provided verbal feedback.

Some consumers expressed an interest in providing comments, but did not provide any written or verbal feedback.

Please refer to Attachment A for the written feedback submitted and summary of the verbal feedback

Summary of Stakeholder Feedback

There appears to be general agreement that the following two issues, which are part of the 2008 performance measures, be MPWG priorities for 2008:

- Issue #9: use of peak versus average hourly demand forecast in the pre-dispatch sequence; and
- Issue #39: exporting operating reserve to neighbouring markets.

The stakeholders all suggested that the third priority issue for 2008 should not be Issue #40 (locational pricing for intertie transactions), for the following reasons:

- The issue has not been defined or even discussed with the MPWG;
- There are a large number of potentially significant analytical, legal, regulatory and practicality issues that need to be examined. Some of these issues may preclude further consideration of locational prices for intertie transactions.

The stakeholders suggested the following issues that should be an MPWG priority for 2008 as an alternative to Issue #40:

- Issue #26: Integration of Competitive and Regulated Wholesale Prices
- Market valuation of capacity (this is currently not on the MPWG issues list).

The stakeholders also suggest a number of issues be assigned medium or low priority, be closed or subsumed by other Stakeholder Engagement activities.

IESO Response

Absent compelling arguments that the performance measures and targets approved by the IESO Board are not appropriate, the IESO must respect the Board's decision. The IESO notes that some stakeholders believe Issue #40 should not be a priority, but more because there is a lack of definition and understanding of the issue and its implications, rather than there being a specific threshold issue that is known to preclude the issue being a priority.

Consideration of establishing a market valuation for capacity is beyond the scope of the MPWG. Market valuation of capacity is a market evolution initiative rather than a market pricing issue. Consideration of such an initiative would be a significant undertaking and would need to involve the Ontario Power Authority, in their role of contracting new generation, and other stakeholders beyond the MPWG. The IESO cannot, at this time, commit to such an undertaking due to resource constraints.

Addressing other MPWG issues should be part of the 2008 MPWG work plan as IESO and MPWG resources permit.

Next Steps

For 2008, the IESO intends to:

- Proceed with the MPWG performance measures and targets for 2008 as approved by the IESO Board;
- Focus its efforts and the MPWG on addressing Issue #9 and Issue #39 i.e. high priority;
- Initiate the investigation of Issue #40, recognizing the potential threshold issues identified by stakeholders in Q3 of 2008 i.e. assign a medium priority;
- Following the DAM recommendations, complete the review of the role of intertie transactions in real-time price calculations (Issue #7);
- As IESO and MPWG resources permit, address Issue #38 – Treatment of Shared Activation of Reserve; and Issue #26 – Integration of Competitive and Regulated Wholesale Prices.

This approach respects both the direction from the IESO Board and feedback from stakeholders.

While recognizing that an examination of market valuation of capacity is beyond the scope of the MPWG, the IESO sees value in sharing of information and ideas on this issue. To that end, the IESO encourages stakeholders interested in promoting market valuation of capacity in Ontario to initiate their own investigations of how other markets value capacity and to make informational presentations to the MPWG on those capacity value market mechanisms.

Yours truly,

Brian Rivard

Attach

Attachment A

Stakeholder Comments on Market Pricing Working Group Priorities and Performance Measures for 2008



Sithe Energy and Cardinal Power (Rob Cary)

- Top priority should be # 9, peak vs avg demand forecast. This has been round for a long time and not yet addressed. Now also identified as SE 54.
- Second priority is # 39, exporting OR, also outstanding a long time.
- Third priority would be to restart thinking about how the market should value capacity.

Before we assign any priority to item 40, there are a number of threshold items that need to be fully addressed:

- Acknowledgment by all (including loads) that the reason for doing this is that the HOEP undervalues energy.
- Recognition that this would represent further discrimination in favour of imports on southern Ontario interties over Ontario suppliers, development of an understanding of regulatory implications, and clarification of regulatory obstacles
- Recognition that the present shadow price methodology has not been tested in the context of settlement use. We would have to resolve all the MIO pricing issues (issue 31) and understand LMP impacts (issues 16 & 25) before we could reach any conclusion on this issue.
- Recognition that penalty factors, which have to date had secondary importance, would suddenly be promoted to direct settlement significance. The IESO methodology will have to be fully developed.
- Recognition and analysis of possible NAFTA challenge from exporters and some importers who would claim negative discrimination.
- Recognition that any changes would also extend to the pre-dispatch determination of the intertie congestion charge.
- Publication of relevant data that is understood to have been previously promised to be provided to the intertie traders group by September 2007.
- Assessment of the extent to which the updated loss factors may have impacted import and export schedules
- Estimation of the resource requirements to complete this scope of work and assessment of value relative to alternative work.

I would then suggest that there are a few medium priority issues

- Issue 38, shared activation of reserve
- Issue 7, interties setting price, should be medium but deferred until there is some clarity about day-ahead market implementation
- If MPWG is the forum for analysis of the econometric day ahead HOEP forecast, this could be medium priority (and supersedes issue 1).

Issues that have low current priority, and are thus effectively on hold, would be

- Issue 32 (IOG) pending outcomes on issue 9 and issue 40 threshold discussion
- Issue 34 (QS facility breaker status issues) may have some linkage with a current rule change proposal to allow nearly-quick-start facilities to be included in the rt dispatch.
- Issue 4 and issue 5 warrant monitoring but no current action
- Issues 16, 25 & 31 all relating to LMP may now be subsumed into some continuation of SE 25 and / or into the conditions precedent to issue 40.
- Issue 19 (penalty factors) is really a dispatch issue, not a pricing issue unless we use locational prices for settlement.

All others can be closed.

My comment on issue 19 does raise the issue of how dispatch-related issues get addressed. It seems likely that a number of dispatch or broader business issues will be identified in SE plans and will need to be addressed over the coming year. Rather than convening separate stakeholder groups for each, it would probably facilitate discussions if there was a single forum for several. Maybe call it a “business issues” group. Maybe hold its meetings immediately after the MPWG meetings to take advantage of common participation by a number of participants.

Bruce Power (Chris Loughren)

Priority List

High Priority

- Issue 9: Peak-vs-Average pre-dispatch demand forecast
- Issue 39: Export OR

Medium Priority

- Issue 38: Treatment of Shared Activation of Reserve - this issue will likely have a small impact and we should be able to dispense of it quickly.

Low Priority

- Issue 32: Role of IOG - I would expect that if the resolution of issue 9 is to move to average demand forecast for some off-peak hours that this issue would go away. Until the resolution of issue 9 it should remain on hold.
- Issue 30: Forecast of real-time price
- Issue 34: Rules concerning breaker status of non-quick start facilities.
- Issue 5: Simultaneous Use of Ramping Generation Units for Energy and Operating Reserve
- Issue 4: Use of 12x RR in the RTU
- Issue 7: Imports and Exports setting price

No Priority Assigned

- Issue 40: Nodal Pricing for Import and Export transactions
There are many related issues to this issue and I would suggest that these related issues are documented and a work plan for addressing each of them is developed. Please try to encapsulate all of these related issues into a single Stakeholder engagement plan. We are drowning in SE's.

The recognition of the group, and the IESO, that the current pricing mechanism does not adequately reflect the true cost of energy in Ontario which makes exports from Ontario economic.

An explicit acknowledgement that pursuing an initiative like this will further harm generators in Ontario in favour of imports from neighbouring jurisdictions.

Some concern has been expressed by various stakeholders at the MPWG who are concerned about the non-fair treatment of imports and exports resulting in regulatory or NAFTA issues. I would request that these regulatory issues be resolved before any serious work is done at the MPWG.

Once these regulatory issues are addressed, I would assign this issue a medium priority.

Closed Issues for the MPWG

Although some of these issues will need to be addressed as part of other initiatives. Eg issue 31 will need to be addressed as part of issue 40.

- Issue 37: OR Initiatives
- Issue 31: MIO Pricing Methodology
- Issue 27: Timing and Input Differences between the Unconstrained and constrained
- Issue 26: Integration of Competitive and Regulated Wholesale Prices
- Issue 25: Temporal Optimization in the RTC but not in RTU
- Issue 23: Uncertainty with respect to Constraint Payments
- Issue 22: Pricing Physical Constraints
- Issue 29: Treatment of Intertie Transactions in a Congestion Pricing Regime
- Issue 19: Penalty Factors
- Issue 18: Pricing and Allocating Line Losses
- Issue 16: Historical Analysis of Nodal Prices
- Issue 01: Pre-Dispatch Price Uncertainty

Ontario Power Generation (Brian Bell)

OPG suggests the following priorities for the MPWG going forward in descending order of priority:

High Priority

- Use of Peak vs Average Demand forecast in Predispatch (Issue #9).
- Exporting OR (Issue #39)

- Discussion on how the market should value Capacity. There has been little or no discussion on this within IESO Market Evolution circles since the discontinuation of the Resource Adequacy Market work in 2004. However, there are resources in the IESO markets which rely solely on market payments while the vast majority of resources receive additional payments via contracts or regulations. Is this the desired end state or should the market introduce some form of payment for capacity?

Medium Priority

- Treatment of Shared Activation of Reserve (Issue #38)
- Interties Setting Price in Real-Time (Issue #7). Is an important topic but can remain on hold pending clarity about day-ahead market implementation. Should reconsider priority when status of DAM is determined.
- HOEP forecast (DAM Option 1), if the MPWG is the forum, it could replace Issue #1.

Low Priority:

- Role of IOG (Issue #32). Can probably close if Issue #9 Peak vs Avg, results in use of average forecast demand in hours deemed free of reliability concerns.
- Quick Start facility breaker status (Issue 34). Keep on hold pending possible changes for peaking generation.
- 12X Ramp Rate: Issues 4 and 5 warrant monitoring but no current action until the update is provided.
- Penalty Loss Factors (Issue #19)
- Pass all LMP related to issues (16, 25, 31) to the SE-25 LMP project. Suggest SE-25 should, within a year, provide an update on the all-in-cost impact on consumers if LMP were implemented in the future. It should also provide some initial thoughts on handling of TRs and balancing payments.

Regarding Issue #40, Nodal Pricing for Import and Export Transactions:

- Prior to utilizing the MPWG to assess the economic efficiency aspects of such a change the IESO should first assess the regulatory issues. Market Participants do not have access to nodal (constrained) prices in intertie zones so it is difficult for participants to appreciate the ramifications of using them for intertie settlement. The IESO had promised to the Intertie Trading Committee to publish nodal prices in the intertie zones. See: <http://www.ieso.ca/imowebpub/200709/intertieTrading-20070926-Item2.pdf>
- Nodal prices should be published for several months prior to discussing the possibility of using them as the basis for pricing imports and exports. There are several aspects in determining nodal prices (definition of incremental) which have not been discussed in the context of using nodal for settlement as we discussed briefly at the last meeting.
- Close the rest of the pricing Issues while recognizing that closing an issue does not preclude further new discussion of any issue that warrants attention due to changing circumstances in the future.

- Consider expanding the mandate of the Market Pricing Working Group to also include changes to the constrained schedule as there is much interest in topics such as 15 minute dispatch, 15 minute offers etc.

As you know, OPG's #1 priority is the resolution of the dispatch volatility issues.

Shell Energy (Paul Kerr)

Agree with the following two issues being 2008 MPWG priorities:

- Issue #9: Peak vs. Average Pre-Dispatch Demand Forecast
- Issue #39: Exporting Operating Reserve

Does not agree with Issue #40: Nodal Pricing for Imports and Exports being a 2008 MPWG priority for the following reasons:

- The issue has not been defined or discussed at all with the MPWG, and so it is impossible to understand the scope and implications of this issue.
 - Even with a limited appreciation of the issue, one can see potentially significant legal, regulatory and implementation issues that may make it impractical to apply nodal pricing only to imports and exports.
 - Applying nodal prices to imports and exports would further exacerbate the existing problem of not treating imports and exports comparably with domestic e.g. imports and exports not allowed to set real-time market prices (MPWG Issue #7).
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Manitoba Hydro (Kelly Hunter)

Further to the item in minutes of the December 5, 2007 MPWG meeting, Manitoba Hydro submits the following comments:

Manitoba Hydro supports the MPWG having priorities and/ or performance measures to help encourage evolution of the Ontario market. We concur with the statement in the draft minutes of the December 5, 2007 MPWG meeting that "Several members expressed concern that establishing the 2008 MPWG priorities and performance measures did not involve stakeholder input".

Manitoba Hydro supports the following three priorities:

- Issue #9: Peak vs. Average Pre-Dispatch Demand Forecast
- Issue #39: Exporting Operating Reserve
- Issue #26: Integration of Competitive and Regulated Wholesale Prices

Regarding the Issue #40: Nodal pricing for Imports and Exports, we concur with the comments of OPG that this "appears to be new to the Market Pricing Working Group and probably emanated

from the recent Market Surveillance Panel Report. It is of interest but will likely have Regulatory related concerns associated with it. IESO should first thoroughly consider the regulatory issues before consuming the time of the MPWG." We ask that the IESO complete the necessary review of the legal and regulatory issues before this issue be placed before the MPWG. Until the legal and regulatory review is complete, Issue #40 should not be a priority for the MPWG.

Brookfield Power (Tracy Erickson)

- a. Issue #9 and issue #39 are considered high priority items but so should a proper market based capacity valuing mechanism. A stakeholder engagement plan should be created for this issue as well as including it as a high priority on the MPWG issues list.
- b. I'm not sure I understand how and why Issue 40 has been assigned a "high" priority. Can we have some further discussion on this issue at the MPWG meeting?
- c. Issues 16, 25, 20 and 31 should fall under SE 25
- d. 37, 23, 22, 18, 1, 27, 37, 26 all could be closed
- e. Issue 19 could be dealt with through another working group that could be a catch all for various business issues
- f. Issue 7 should be reviewed under DAM but if a DAM in Ontario doesn't materialize it should be a high priority on the MPWG issues list
- g. Issue 38 - keep as medium, issue 34 - keep as low, issue 32 - keep as medium
- h. Issue 4 and 5 should be monitored.